



 **GOLOMT BANK**
Investing for a brighter future

2018

ANNUAL REPORT

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Company Profile

VISION



Mongolia's
**global
benchmark
bank**

MISSION



**The
genesis of
prosperity**

BUSINESS MODEL



**Customer-
Centric**

2018 Our Achievements



2nd most profitable
bank in Mongolia



2nd largest bank by deposit
in Mongolia



SocialPay

free international
online
payment
card

Nº1

Bank of the Year-Mongolia
by the Banker
Award



Gold market



3rd largest bank by asset
in Mongolia



Excellent Partnership
in Trade Finance
by Commerzbank AG



The most innovative digital banking
by Bloomberg
Awards

In 2018, Golomt Bank demonstrated its ability to navigate and thrive in a complex business environment which included eventful macro-economic changes, fierce competition and stricter banking sector regulations. We, Golomt Bank, achieved remarkable growth and financial results, giving confidence to our investors and customers and strengthened our reputation and business model as well as once again proved our resilience to challenging market conditions.



Successfully implemented global standard for **Internal Audit Division**



Over **125,000** customers national savings program



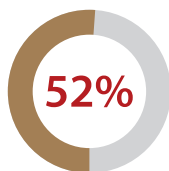
Credit rating was upgraded from **B- to B by S&P**



First Mongolian Bank to join **Principles for Responsible Banking - UNEP FI**



Credit card market share



Leader in mortgage and retail financing

Message from the Chairperson of the Board of Directors and the CEO of Golomt Bank

The progressive changes we have made in the past few years are bearing fruit as our overall financial and profitability indicators improved. By maintaining the trust of our stakeholders, the bank's assets grew by 17%, reaching MNT 6.1 trillion, while customer deposits grew by 27%, reaching MNT 4.4 trillion. The bank's total loan portfolio has increased by 37%, and half of the growth was from retail loans. The solid increase in the loan portfolio led our market share to grow from 16.8% to 18.7% in 2018.



Chairperson of the Board
Munkhtsetseg Chultem



Former Chief
Executive Officer
Ganzorig Ulziibayar



Chief Executive Officer
Norihiko Kato

Dear shareholders, valued customers, partners and colleagues,

Through prudent management coupled with a positive economic environment, Golomt Bank was able to deliver strong results in 2018. The progressive changes we have made in the past few years are bearing fruit as our overall financial and profitability indicators improved. By maintaining the trust of our stakeholders, the bank's assets grew by 17%, reaching MNT 6.1 trillion, while customer deposits grew by 27%, reaching MNT 4.4 trillion. The bank's total loan portfolio has increased by 37%, and half of the growth was from retail loans. The solid increase in the loan portfolio led our market share to grow from 16.8% to 18.7% in 2018.

In this era of so called "The 4th industrial revolution", all business models, including those in the banking sector, are being challenged by the fast-paced developments in digital technology. Golomt Bank has a long tradition of being a pioneer in the Mongolian Banking sector, introducing new products and services that are especially technology based. The bank's focus has been geared towards maintaining its advantageous position in the market through investments in technological advancement, while keeping in line with its traditional banking services. We are fully aware that a delicate balance should be achieved to control expenses while investing **in** both traditional and digital channels. Golomt Bank was able to achieve that balance effectively, by decreasing the cost-to-income ratio from 49.2% to 47.5% in 2018.

We believe that the social and environmental impact each company makes is a growing concern for all businesses. Recognizing our position as a systemically important bank, we aim to lead the green initiatives in the country as well as in the region. Thus, since joining UN Environment Program - Finance Initiative (UNEP FI) in December 2017, we have been actively working towards aligning the global banking sector with the UN Sustainable Development Goals (SDG) and the Paris Climate Agreement along with the global giants including ICBC, Societe Generale and more. We truly believe that making an impact requires both commitment and effort, and that change can be made no matter the size or reach of an institution.

Thanks to the hard work and dedication of our employees and the support of our clients and shareholders, we were able to complete another successful year of operations.

On behalf of the Board of Directors, I would like to extend my warm gratitude to all the stakeholders including Ganzorig Ulziiibayar who brought highly successful years at Golomt Bank during his tenure as Chief Executive Officer and Norihiko Kato who will further lead and strengthen bank's success as a newly appointed Chief Executive Officer. We are truly confident that Golomt Bank will achieve many more milestones in the coming years under Mr. Kato's leadership with extensive management experience and fresh perspective.

Sincerely yours,



Munkhtsetseg Chultem
Chairperson of the Board

Sincerely yours,



Norihiko Kato
Chief Executive Officer

Meet Our 2019 Senior Management



Chief Executive Officer
Mr. Norihiko Kato

Mr. Norihiko Kato was appointed as the CEO of Golomt Bank in May, 2019. He is an internationally experienced banker with over 30 years of proven track record both in developed and emerging markets. He held various senior positions with MUFG Bank, Khan Bank, Sathapana Bank and Sustainable Finance Initiatives.



President
Mr. Ganbold Galsan

Mr. Ganbold Galsan has been with the Bank since 2000 and held various executive positions including Director of Operations Division, COO, and CEO. Since 2016, he has been working as the president of the Bank.



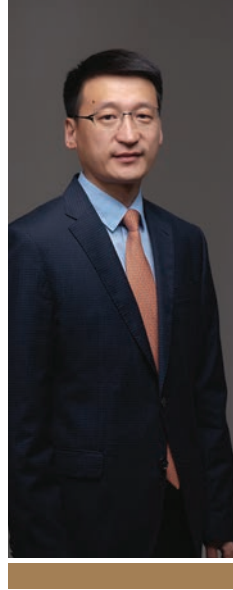
Deputy CEO (Credit)
**Mrs. Nyamsuren
Tumur-Ochir**

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



Deputy CEO (CIO)
**Mr. Sainbileg
Mandakh**

Mr. Sainbileg Mandakh has been with the Bank for over 9 years. He started his banking career as a Program Engineer of IT Department in 2005, and held various senior positions in the IT Division of the Bank. He also gained international experience while working in QOSQO and A.C.E.R.



Acting Deputy CEO (COO)
Mr. Sugar Dashbazar

Mr. Sugar Dashbazar was appointed as the Acting Deputy CEO, in charge of HR and Operations of the Bank in April, 2019. He has been with the Bank since 1997. During 22 years of his working experience in Golomt Bank, he has held various senior management positions, including Director of Operations Division, Business Development Division and Financial Management Division.

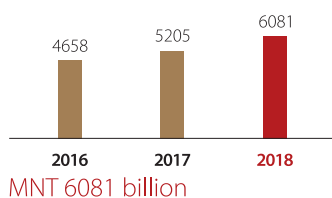
Financial Highlights

With a record high operating income and net income, 2018 was a strong year for Golomt Bank. We earned MNT 306.3 billion in operating income and MNT 53.5 in net income. Our net loans grew by 37% reaching MNT 3.2 trillion and total customer deposits grew by 27% reaching MNT 4.4 trillion. We have also improved our market shares across business lines and products. As a result of the net loan growth, our loan market share increased by 1.9% from 16.8% to 18.7%.

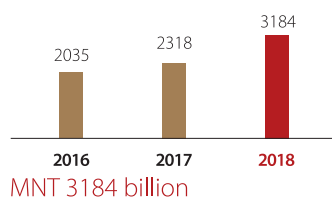


Financial Highlights of 2018

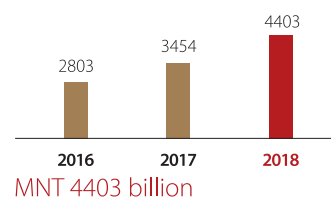
Total Assets
(MNT billion)



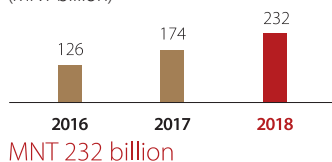
Net Loans
(MNT billion)



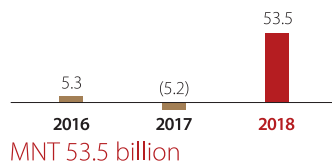
Customer Deposits
(MNT billion)



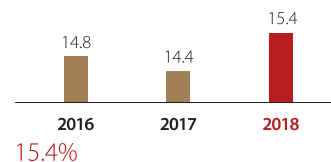
Operating Income (without swap)
(MNT billion)



Net Income
(MNT billion)



Capital Adequacy Ratio
(%)



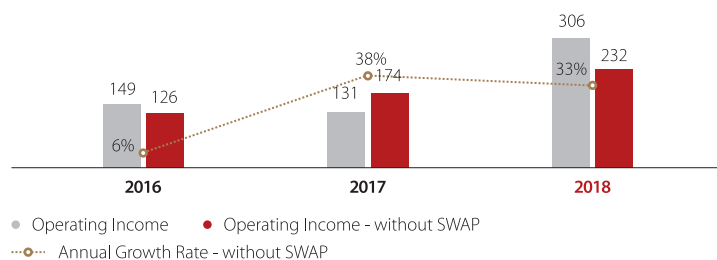
In 2018, Golomt Bank demonstrated its ability to navigate and thrive in a complex business environment which included eventful macro-economic changes, fierce competition and stricter banking sector regulations. We, Golomt Bank, achieved remarkable growth and financial results, giving confidence to our investors and customers and strengthened our reputation and business model as well as once again proved our resilience to challenging market conditions.

Income Statement

Our net income for 2018 reached MNT 53.5 billion, which shows a significant improvement compared to a loss of 5 billion in the previous year due to a fair value charge for the Bank's own fixed asset revaluation. Operating income without a one-off impact increased by 33% while the total operating income grew by 135% for the year. The net interest income has increased by 40% in 2018 from MNT 122 billion to MNT 171 billion as a result of successful growth of interest earning assets and meticulous management of net interest margin.

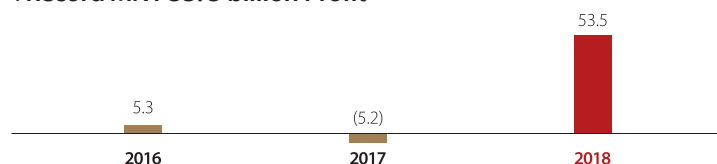
Operating Income (MNT billion)

+33.3% YoY Growth



Net Income (MNT billion)

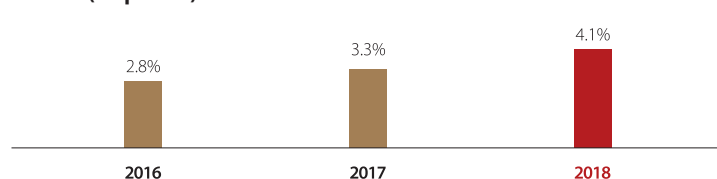
+Record MNT 53.5 billion Profit



In 2018, all operating profitability indicators improved compared to 2017 due to increased efficiency, cost control and optimized Asset Liability Management. We have focused on profitable sectors and strategized to have a balanced loan portfolio and were able to increase our interest earning assets. The efforts resulted in the net interest margin to increase from 3.3% to 4.1% and cost income ratio to decrease from 49.2% to 47.5%.

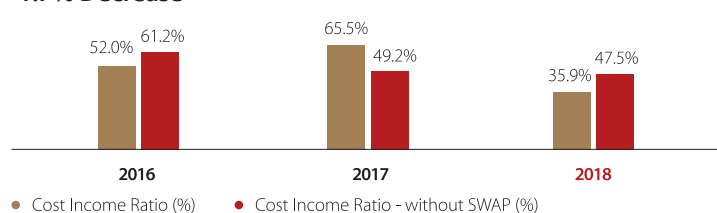
Net Interest Margin

+0.8% (Improve)



Cost Income Ratio

-1.7% Decrease

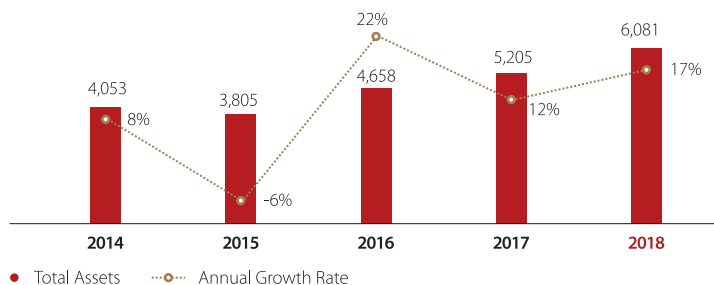


Balance Sheet

ASSETS

In 2018, assets grew by 17% (MNT 877 billion) and reached MNT 6.08 trillion as compared to MNT 5.2 trillion in previous year. The main asset growth driver was the successful implementation of the Customer-Centric business model which brought in an increase of customer deposits and rapid growth of loans, supported by strengthened capitalization.

Total Assets (MNT billion) +17% YoY Growth for 2018

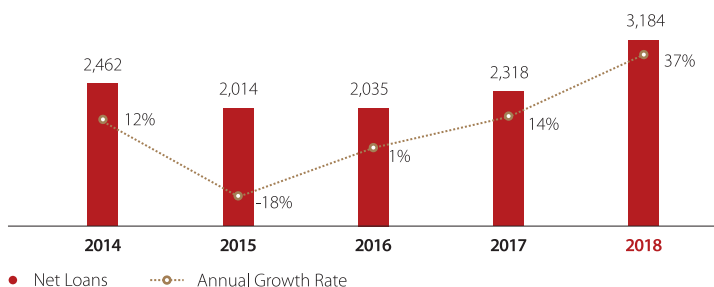


LOAN PORTFOLIO

Loan portfolio growth had stalled and shrank during 2014 – 2016 as Mongolian economy faced a downturn. While net loans grew by 14% in 2017, we have achieved a strong growth of 37% in loans in 2018, increasing the net loan portfolio by MNT 866 billion from MNT 2.3 trillion to 3.18 trillion.

Loan growth was positive for all client segments - Corporate, SME and Retail loan portfolios all increased. Particularly, the growth in retail loan portfolio was the strongest; hence, the proportion of corporate lending portfolio decreased to 52%. This successful portfolio shift shows the positive effects of the Customer-Centric Business Model and ensures our strategy to have a balanced portfolio.

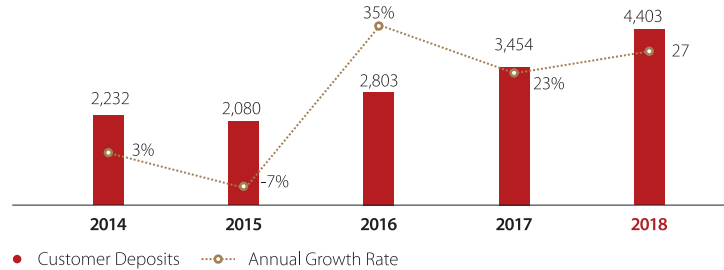
Net Loans (MNT billion) +37% YoY Growth for 2018



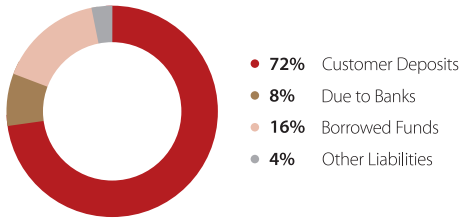
LIABILITIES

The main driver of the liabilities growth was the increase of customer deposits which grew by 27% (MNT 949 billion) from MNT 3.5 trillion to 4.4 trillion. As of year-end 2018, customer deposits comprised 79% of total liabilities. As a result of the high growth of customer deposits, the proportion of borrowed funds decreased from 16% to 13%, the borrowed funds decreased by MNT 42 billion in total.

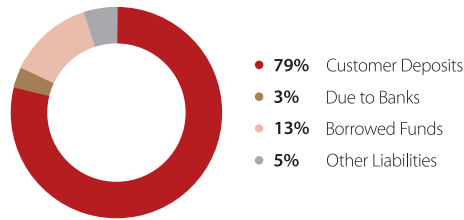
Customer Deposits (MNT billion) +27% YoY Growth for 2018



2017 Liabilities Structure



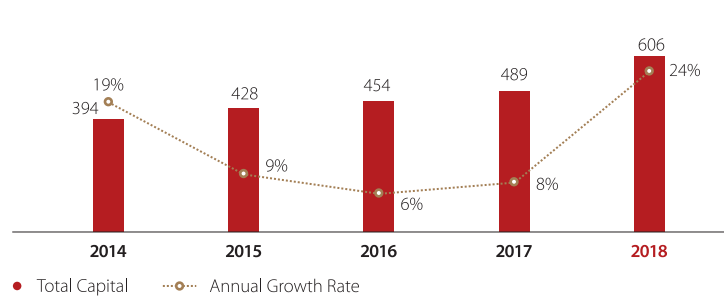
2018 Liabilities Structure



EQUITY

In 2018, we have increased our capital base with an additional MNT 117 billion, which represents a 24% growth from MNT 489 billion to MNT 606 billion as of year-end. This growth came mainly from the additional capital injection by the majority shareholder Golomt Financial Group LLC and investment by Bodi International LLC, along with the conversion of Tier 2 capital to Tier 1, combined with strong operating results for the year.

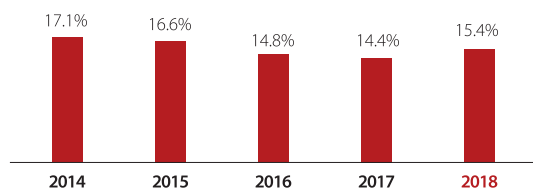
Total Equity +24% YoY Growth for 2018



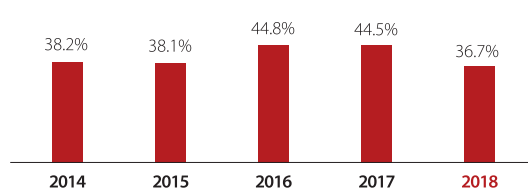
The Bank sustained an equity growth over the years despite the decline since 2015, strongly correlating with Mongolian economic downturn. The strong recovery of equity growth in 2018 was mainly driven by the new capital injections and the successful operating result for the year. With this growth of equity, we fulfilled all prudential ratio requirements set by the regulator while we were able to capture the positive economic cycle and expanded our loan portfolio.

PRUDENTIAL RATIOS

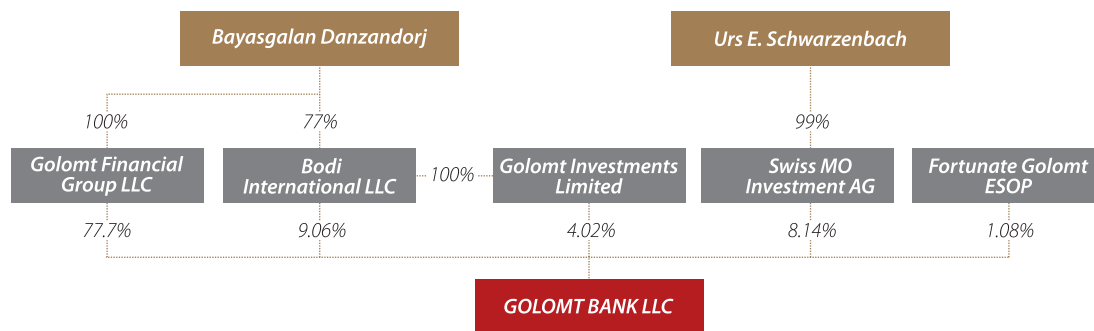
Capital Adequacy Ratio (CAR)



Liquidity Ratio



Shareholder Structure



Golomt Financial Group LLC is a financial group holding company and the major shareholder of Golomt Bank. It holds equity investments in financial sector businesses (such as insurance and brokerage) and is solely owned by Mr. Bayasgalan Danzandorj, who is the ultimate beneficiary owner, one of the founders, former CEO and former Chairman of Golomt Bank.

Bodi International LLC, established in 1993, is one of the first conglomerates in Mongolia, currently managing more than 10 subsidiaries and associate companies in a variety of sectors such as real estate development and management, construction, energy, and mining. Bodi International LLC is also majority-owned by Mr. Bayasgalan Danzandorj.

Golomt Investments Limited was established in 2014 as Bodi International LLC's subsidiary.

Swiss-Mo Investments AG is a Swiss investment fund, holds equity interests in exchange, airports, airlines and hotel businesses. It is majority-owned by leading Swiss philanthropist, investor, Mr. Urs Ernst Schwarzenbach.

Fortunate Golomt – ESOP represents 149 key employees of the Bank under the Employee Stock Ownership Program (ESOP). Although the ownership portion is 1.08%, the shareholders supported employee representation on the Board and assigned one seat to ESOP.

Meet Our Directors

BOARD OF DIRECTORS



Mrs. Munkhtsetseg Chultem
Chairperson

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



Mr. Urs Ernst Schwarzenbach
Member

Mr. Urs E. 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.



Mr. Munkhtur Dagva
Member

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



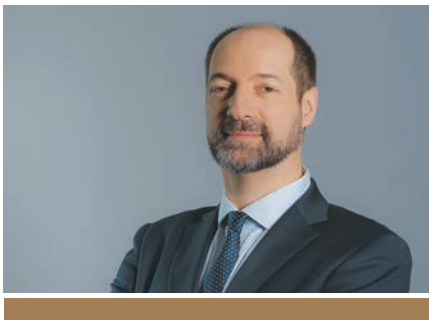
Mr. James Bernard Dwyer
Independent Member

Mr. James B. Dwyer joined the Bank's Board in 2018. He has an extensive 20 years of international investment banking experience and held various executive roles at the Business Council of Mongolia, M&A for Union Bank Switzerland, Khan Bank and TDB.



Mr. Unenbat Jigjid
Independent Member

Mr. Unenbat Jigjid 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. Currently, Mr. Unenbat is working as the president of the Mongolian Banker's Association.



Mr. Antonio López Abelló
Independent Member

Mr. Antonio L. Abelló 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.

Our Business in 2018

We continue to provide comprehensive and tailor-made solutions to our corporate, SME and retail clients, including working capital and long-term investment loans, cash management, trade finance and treasury services as well as enabling platforms for experience sharing and consulting services.



Corporate Business

Corporate Business



Corporate Loan
Amount
MNT 1.1 trillion



Corporate Deposit
Amount
MNT 1.3 trillion




"Risk Forum of Mongolia 2018" was organized for the ninth year, addressing the risk factors of Mongolian social, economic and business sectors.

FINANCIAL CONSULTING

Provided Financial Consulting Service to the first Agriculture sector IPO issued by Tumen Shuvuut JSC.

Organized "Cyber Security" event to educate customers on cyber-attack prevention and protection. We have increased our financing to the socio-economically important sectors for portfolio diversification and urban development.

Industries Financed

WOOL AND CASHMERE MANUFACTURING		over MNT 100 billion	Export of MNT 145 billion of end products to China, Italy, Scotland and England
FOOD INDUSTRY		over MNT 110 billion	Industry sales revenue reached to MNT 360 billion
CONSTRUCTION		around MNT 80 billion	Introduced high quality luxury apartments and hotels with advanced technology

We also cover significant part of the mining and fuel supply of Mongolia through our corporate banking business.

Commodities Market Share

	Gold trading market share 68%		Financed 40% of the total coal export of Mongolia		Financed 32% of the total fuel import of Mongolia
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"GOLOMT GOLD FORUM"

We have successfully organized the first ever "Golomt Gold Forum" in 2018, leveraging on our strong and active presence in physical gold trading in Mongolia. The forum aimed to provide latest information on macro environment, pricing, future trends and the bank's policy on gold market. The Forum was a timely and a well-received event with high attendance that included the top 100 gold mining companies along with importers of world renowned mining equipment, such as Wagner Asia, Transwest Mongolia, Monnis Mining Equipment and AODE Machinery.

NEW SERVICE: CORPORATE GATEWAY

In 2018, we have introduced the Corporate Gateway Service for direct, fast and efficient payment processing for our corporate clients by integrating the client's ERP system to our core banking system. With successful application, Monos Group, E-mart supermarket chain, LendMN, Unitel Group and other major companies have already accessed the Corporate Gateway service.



GARDEN CITY RESIDENCE

NCD Group's new complex town, Garden City Residence, aims to build a family friendly, safe and healthy living environment based on the market research of evolving buyer behavior and changing demand. We financed this project, which covers 13.3 hectares of area with 50% of green area with the aim to introduce the most advanced apartment technology with comprehensive solution and better living environment for customers.



NEW ULAANBAATAR INTERNATIONAL AIRPORT PROJECT

We have provided bank guarantees and over MNT 100 billion funding for the local and foreign enterprises that are working on the New International Airport project. Aside from the airport facilities, we are also financing the highway project connecting the capital city and the new international airport while providing banking services to the main contractor, China Tiesiju Civil Engineering Group Co.,Ltd, and to its local subcontractors.

"KHUCHIT SHONKHOR" SUBSTATION

Within the government's framework to reduce the air pollution in the capital city, we financed the 110/10 kV "Khuchit Shonkhor" substation which would provide electric heating to 20,602 ger district households with total financing of MNT 17 billion.

SME Business

We engage and provide full banking services to over 2800 SMEs in Mongolia as we believe they foster growth, diversify the economy, lessen the dependence on the mining sector, and create more jobs. In 2018, we have increased our SME loan portfolio size by MNT 393.6 billion which is a 118% increase compared to 2017 and reached total SME portfolio of MNT 726.2 billion. As a result of the growth, we hold 21.3% of the SME market share in Mongolia.

"NEXT CHAMPIONS 2018" MANAGEMENT FORUM

We constantly look for innovative ways to support and educate our SME clients. Within this framework, we organized the "Next Champions" Forum for SMEs in Mongolia for the second time to contribute to the success of our customers' businesses, increase their competitiveness and exchange market intelligence. The Forum was high in demand among the Top 600 SMEs of Mongolia. During the management forum, SMEs were able to learn from market leaders, seasoned management team of top Mongolian corporates regarding management skills, working methods, achievements, best practices and experiences.

SUPPLY CHAIN FINANCING

In 2018, we integrated supply chain financing framework and business model to the trade and mining sector clients. Oyu Tolgoi, the gold and copper mine, is the biggest project undertaken in Mongolia and we are committed to continue providing supply chain financing to the 400+ contractors of which many are SMEs. To improve our supply chain financing, we have studied and implemented best practices of our international partner institutions such as IFC. Further, we are planning to introduce tailor-made products and services to all business sectors such as trade, industry, mining and energy sectors.

SME SUCCESS STORY: ECO SOAP - SUPPORTING FEMALE ENTREPRENEURS FROM THE START-UP

When we first started our cooperation with Ms. Nomintsetseg, she was a Chemical Technician at the Institute of Chemistry and Chemical Technology.

While she was on maternity leave, she turned her hobby of making soap from accumulated leftover food fat into a micro business and started selling small amounts at Narantuul market. Her soaps were popular as they were made from all natural ingredients while being ecologically friendly.

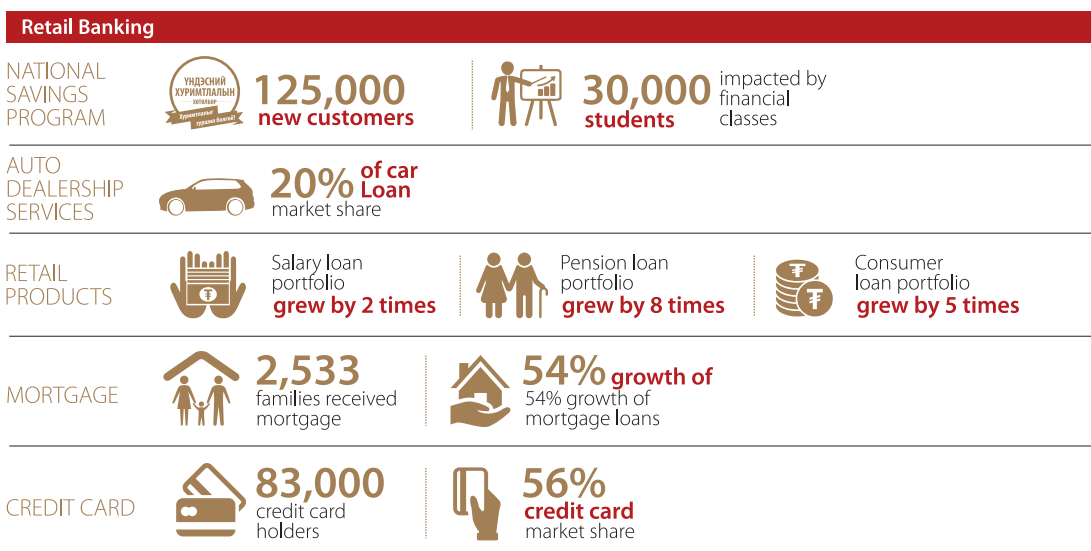
With the financing provided by Golomt bank that targeted to support socially responsible women owned businesses, which aligns with our corporate social responsibility framework, she was able to buy a 20 square meter work space along with official licenses to manufacture and also purchase the much needed soap printing machine.

As a result, her production increased five folds and she was able to provide three people with a full-time employment while expanding her sales outside the capital.

Retail Banking Business

Through our retail banking business, we serve more than one third of the adult population of Mongolia. Our retail customers are mostly comprised of mid- and upper income group and young professionals. In addition, we have the largest retail network in Ulaanbaatar city compared to peers. As the urban retail bank, we provide services not only through our branches and service points but also through cutting edge banking technologies such as e-banking, mobile banking, smart-service centers with 24/7 self-service capabilities.

With a strategic focus to be a customer-centric bank, we have strengthened our business model, improved our digital platform, and enhanced data security.



Digital Banking Business

In 2018, we have launched several digital banking solutions and improved our capabilities to transform the customer experience by creating an opportunity to access banking services anytime and anywhere from their mobiles.

SOCIALPAY 2.0 – THE DIGITAL WALLET

SocialPay 2.0 - The digital wallet was successfully launched to provide intuitive, fast and advanced technology based banking product and services. With this upgrade, we introduced simplified interface and faster operation. This was one more step towards shifting our business from traditional banking to digital banking which aligns with our Customer-Centric Business Model.

Through SocialPay 2.0, customers are able to open checking accounts online, request virtual international credit cards free of charge and apply for personal loans. In addition, SocialPay also enables instant payments to retailers.

In addition, customers are available to purchase IPO stocks, movie tickets, apply for insurance, pay utilities and other service and entertainment event charges through SocialPay.

Our Bank was awarded “Best Innovative Bank of the Year” by Bloomberg TV Mongolia with SocialPay.

SocialPay 2.0 Achievements



SocialPay

Number of Social Pay users increased more than **3 times since last year, reaching 104,861 from 34,413**



Average of **80,000 transactions per month**



Additional **34,000 new customers** through this digital channel



10,000 virtual new debit cards issued through the digital wallet

“KHUR” AND “DAN” SYSTEMS INTEGRATED INTO THE BANK’S DAILY OPERATIONS

We are the first private sector company to integrate the government information exchange system, KHUR, into the bank’s operations. The system improved our operational efficiency by saving time of customers to collect and bring physical state issued documents such as ID cards, social insurance record and proof of address. Since the integration, a total of 400,000 references were generated by the system to register new customers and evaluate their credibility.

Also, following the implementation of KHUR system, we have integrated the government system access tracker, DAN system, into the bank’s activities. With the DAN system, customers can use their computers or smart phones to upload personal data into the bank’s system. We have also added an electronic signature solution to verify the identity of customers when they are using online banking. The integration of electronic signature improved information security and safety of the bank while protecting customer data.

DIGITAL CHANNEL AND CAPACITY IMPROVEMENTS

In 2018, we have continued making improvements to our Online Banking and Smart Banking services to strengthen the Customer-Centric Business Model and to enable new technological capacities. In addition, we have established an INNOVATION LAB, a new facility equipped with the latest technology for the bank staff to do research on technological innovations, test internationally recognized FinTech services and generate new capabilities.

DATA & INFORMATION SECURITY

The increased utilization of technological advancement has attracted numerous customers to actively use our online banking services. Accordingly, we have taken the following actions to mitigate risk and ensure the security of our customer data.

- Became fully compliant with ISO27001 Standards
- Implemented General Data Protection Regulation to protect personal data
- Established a Security Operations Center in 2018

International Funding and Cooperation

INTERNATIONAL FUNDING AND CREDIT LINES

We pursued to expand our international funding access to offer wide range of highly specialized financing solutions to our customers at lower cost. Our short-term trade finance capabilities have grown by USD 68 million with support of our international partners such as ODDO BHF, IBEC, Atlantic Forfaitierungs AG, ING Bank, ICBC, Bank of Inner Mongolia, Transkapital Bank and IIB. In terms of medium and long-term funding we have expanded our financing capacity by USD 44 million with Roseximbank, SACE and Hungarian EXIM Bank.

CORRESPONDENT BANKING RELATIONS

We have been offering a complete spectrum of international payment solutions for our clients through our well-dispersed correspondent network of 30 international banks worldwide. Within the reporting period, we have expanded our correspondent banking network with ING Bank Belgium, OCBC Bank Singapore, Commerzbank Germany by opening new clearing accounts in currencies such as USD, EUR and CAD.

In order to meet client needs for foreign currency in cash, we have expanded our network and established a new cooperation agreement with 'Travelex' - the International banknote service provider, and have successfully launched our foreign banknote export and import transactions.

INTERNATIONAL COOPERATION

We have joined the Regular Cooperation Mechanism under the “Belt and Road Initiative” launched by ICBC Bank China, which allows member banks to participate in the projects under this framework and to promote their international trade and economic cooperation. The mechanism stands for expanding the business cooperation and combining the efforts by the international banks and financial institutions to finance large infrastructure projects under the “Belt and Road Initiative”.



Mr. Ganbold Galsan, President of Golomt Bank and Mr. Wang Kun, Deputy General Manager of International Banking Department of ICBC, signing the “Framework Agreement on Regular Cooperation Mechanism under the Belt and Road Initiative” October 25th, 2018

Trade Finance Business & Services

Golomt bank has set its target to become the leading trade finance and services bank in Mongolia, providing tailor made solutions to fast growing corporate and SME clients.

Market Shares



**Import
Letters of
Credit**

27%



**Export
Letters of
Credit**

33%



**International
Guarantee**

30%

IMPORT FINANCING

In 2018, we have successfully financed import loans of over MNT 200 billion in total. In addition, we provided MNT 78 billion for petroleum importing under the expanded cooperation with International Investment Bank and International Bank for Economic Cooperation.

We have also financed construction materials, equipment, machineries and consumer imports in different currencies such as USD, EUR and CNY in partnership with Commerzbank AG, ING bank, ODDO BHF AG, SMBC, Atlantic Forfaitierungs AG, Transkapitalbank as well as ICBC, Baoshang and Bank of Inner Mongolia. We maintained our leading position on letter of credit issuance to China, the biggest trade partner of Mongolia with over 50% of the letter of credit issued.

ECA (EXPORT CREDIT AGENCY) BACKED FINANCING

With support of our ECA partners such as Atradius, Netherlands, SACE Italy and EDC Canada, the long-term financing of MNT 16.1 billion has been issued to accelerate importing more up-to-date and advanced equipment and machineries in the strategically important sectors of agriculture, mining and manufacturing.

“GTR ASIA - TRADE & TREASURY WEEK 2018” CO-SPONSOR

We participated in the “GTR Asia - Trade & Treasury Week 2018” as a co-sponsor during September 4-7, 2018 in Singapore. This was one of the major global event for trade finance solutions where more than 1000 participants from all over the world operating in various sectors including banking, finance, trade, legal and information technology have gathered under one roof to share their experiences.



SUCCESS STORY

Monnis Mining Equipment LLC - Delivery of Liebherr R9400 Excavator to Oyu Tolgoi Mine

With the financing of Golomt Bank and Commerzbank AG Germany, Monnis Mining Equipment LLC has successfully delivered its second Liebherr R9400 excavator to Oyu Tolgoi mine. Oyu Tolgoi mine, as the major tax payer to Mongolian economy, collaborates with various local suppliers and Golomt bank in collaboration with Commerzbank AG have provided financing facilities of the equipment thus enabled the project to be completed efficiently.



Mr. David Midor, Oyu Tolgoi Mining operation manager; Mr. Bilguun S., Sales manager at Monnis group LLC, Mr. Dashdendev G., Head of Mining and Infrastructure Department, Golomt Bank, at the delivery ceremony of the Liebherr's R9400 excavator to Oyu Tolgoi Mine.

INTERNATIONAL FUNDING AND TRADE FINANCE PARTNERS



INTERNATIONAL INSTITUTIONS – MEMBERSHIP



Impact Financing

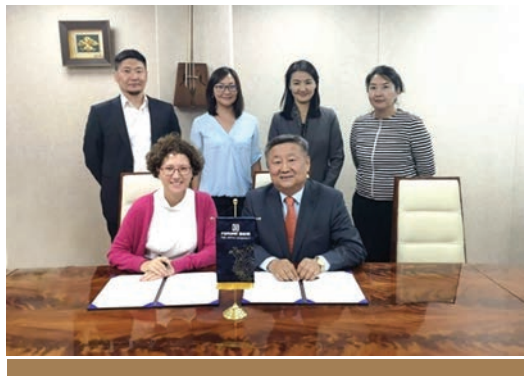
WE SUPPORT KEY ECONOMIC SECTORS IN MONGOLIA THROUGH OUR IMPACT FINANCING ACTIVITIES

During 2018, we have actively participated in the on-lending program supported by the Development Bank of Mongolia and have provided financing of MNT 40 billion to the cashmere sector. Similarly, we are the leading bank in terms of financing Agriculture and Rural Development Project conducted by Asian Development Bank with on-lending performance of USD 5 million in 2018, and USD 35 million in total since the introduction of the program back in 2016.

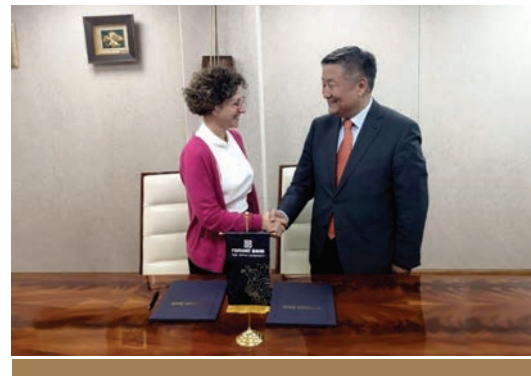
We have a long-term, 8 years, credit agreement with WorldBusiness Capital, Inc. (WBC) under the guarantee of the U.S. Overseas Private Investment Corporation (OPIC) as part of its commitment to developing SME and agriculture sector in Mongolia. Under this facility, we have utilized a total of USD 4.8 million in impact financing in 2018. We have also financed total of USD 5.0 million worth of SME and micro loans through the Lendahand platform in collaboration with Netherlands Hands-On B.V mutual fund.

IFC- GREEN FINANCE ADVISORY SERVICE

In October 2018, we have commenced a “Green Finance Capacity Building” advisory service with IFC. The scope of the program mainly focuses on the development of our Green Finance strategy, identifying potential sustainable clients and financing green projects. Furthermore, a Core Green Finance Team consisting of key department representatives was established to further develop bank’s green finance activities. The Green Finance team is trained to identify green projects, measure carbon emission reductions and assess energy efficiencies.



IFC and Golomt Bank representatives



Mrs. Rachel Freeman, Advisory Manager, Financial Institutions Group, IFC; Mr. Ganbold Galsan, President of Golomt Bank



Golomt Bank's Green Finance Team, and IFC Green Finance Specialists



Mr. Tomas Bravenec, Deputy CEO of Golomt Bank, and Ms. Simone Dettling, Banking Team Lead UN Environment Program Finance Initiative, London, Great Britain

In the near future, we aim to grow our green portfolio by creating new green loan products for textile and cashmere, food production and energy efficient buildings, as well as for the projects that improve the efficiency of energy and water consumption. We are committed to drive positive fundamental changes providing environmentally friendly financial solutions to our clients.

UNITED NATIONS ENVIRONMENT PROGRAM – FINANCE INITIATIVE: PRINCIPLES FOR RESPONSIBLE BANKING

In April 2018, we have become one of the core group members of United Nations Environment Program – Finance Initiative (UNEP FI) Banking Committee consisting of 28 leading banks from around the world. The Banking Committee has developed and introduced the “Principles for Responsible Banking,” which provides a framework for the sustainable banking system for the future and help banking industry demonstrate a positive contribution to the society. The Principles set the global standard for what it means to be a responsible bank and will ensure that banks create value for both their shareholders and society.

During the Global Roundtable Meeting in Paris, which took place on November 26th 2018, UNEP FI together with the 28 core group banks have launched the “Principles for Responsible Banking” for global consultation. As a core group member, we have participated in the global public consultation and discussed about the Principles and our own implementation plan.



By developing the set of principles, the 28 founding banks set out a clear purpose for the banking industry itself and also enable investors, policy makers and regulators, clients and civil society to compare banks and hold them accountable for environmental, social and economic impacts and contribution to society's goal. As one of the founding banks, we are committed to publicly declare our involvement in the Responsible Banking, and raise social awareness on sustainable development.

THE FIRST PLASTIC RECYCLING FACTORY OF MONGOLIA.

We financed the first recycling factory, Tsetsuuh Trade LLC, of Mongolia in 2018. The factory recycles plastic bottles and packages of chemicals and manufactures plastic pellets which can be reused for production of plastic containers, pipes and boards.

Through this financing of the first plastic recycling factory, we aim to preserve the environment and create awareness for efficient waste management solution for the client.

Treasury Business

FOREIGN CURRENCY TRADE

We achieved a 30% domestic market share in currency trading and are providing hedging solutions to our clients to mitigate their foreign exchange risk. In the reporting period, the total foreign currency turnover increased by 51% compared to last year, exceeding USD 6 billion. Aside from the currency trading and hedging, we have strengthened our position as the market leader as we were chosen as the primary dealer in the interbank FX market every quarter during 2018.

HEDGING

We have been offering innovative hedging products such as swaps, options and forwards to manage clients' currency risk and we also led the market through our extensive product offerings and capacity.

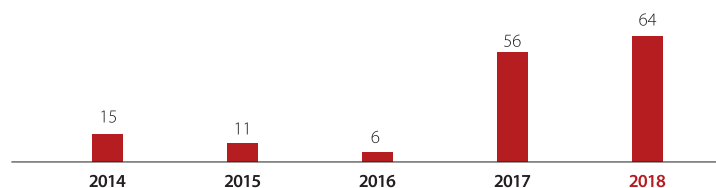
MONEY MARKET

Aside from maintaining the prudential ratios set by the Bank of Mongolia and being one of the key players in the domestic money market, we have optimized our interest yields by placing excess reserves into highly liquid and high yielding short-term assets.

GOLD TRADING

We also reaffirmed our leading position in the physical gold market by reaching a market share of 64%. Furthermore, we have expanded the gold trading activities by opening new units for gold trading in rural areas.

Golomt Bank Gold Market Share (in percentage)





Original Gold Bar Made by Golomt Bank

HYBRID DEPOSITS

We have successfully introduced a Hybrid Deposit, which is the first of its kind structured deposit product in the Mongolian market. We are able to manage downside risk while allowing the upside interest earning potential of customers' investments, linking it to selected commodity or stock price, with Hybrid Deposit product.

Customer Service

The Customer-Centric Business Model was integrated into our operations since 2016 and during the past few years, the Bank has successfully finished 60 projects to improve service and product quality, creating an opportunity for us to provide higher quality and tailored customer service for our diverse customer base.



A unified Customer-Centric strategy across products, divisions and segments is being taken to drive greater value for our customers, creating synergy across the whole bank to pave a way to our mission: become Mongolia's Global Benchmark Bank by 2020.

The Customer-Centric Business Model was integrated into our operations since 2016 and during the past few years, the Bank has successfully finished 60 projects to improve service and product quality, creating an opportunity for us to provide higher quality and tailored customer service for our diverse customer base.

In order to provide tailored services more efficiently and effectively, we have constructed a comprehensive survey to measure customer satisfaction, asking customers' experience, satisfaction and overall impression of the bank, which enabled an opportunity to provide optimal customer service experience.



In addition, a monitoring system, measuring 7 metrics was implemented and integrated into the bank's operations to provide consistent quality services and products to our customers. The metric measures:

1. Integrated performance of customers' behavioral trail
2. Implementation of standards
3. Standard performance of customer service employees
4. Quality of customer service for special segment customers
5. Monitoring for branch comfort and hospitality for customers
6. Monitoring for customer service employees' knowledge regarding products
7. Customer service division's action plan performance

Furthermore, trainings to enhance customer service and test employees' knowledge on products to ensure customers will receive most up-to-date information was embedded across all our front-end functions.

In 2018, programs, seminars and competitions were held to improve employee's communication skills with our customers, to enhance product knowledge and assist in acquiring new skill sets to drive value for customers. We are focusing on creating trained and experienced professionals that will set a new and improved service standard in Mongolia's banking sector and propel the industry into the next level.



Through the "Business Model Project", launched in 2017, the layout and design of 26 branches were renewed in 2018 as an initiative to create a hospitable and ergonomic environment for our customers. As a result of the improved and up-scaled branches, access to online banking was streamlined by providing access to high speed Wi-Fi, wait times were reduced and amenities were added for comfort.



As a strategic initiative, Golomt continued to improve customer service and issue resolution processes across all business function. The Contact Center, established with the goal to better serve our customers, can be reached from any part of the globe and works 24/7 to resolve issues and serve customers' needs.

In 2018, 90% of the 767,000 customers who attempted to connect with the contact center were able to connect with customer service associates on first attempt while the remaining 10% of the customers were contacted back by the Contact Center.

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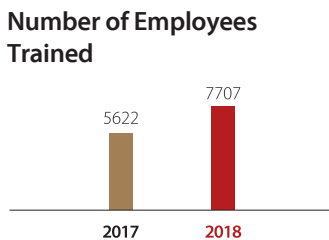
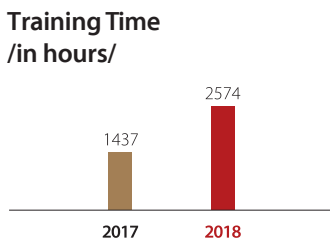
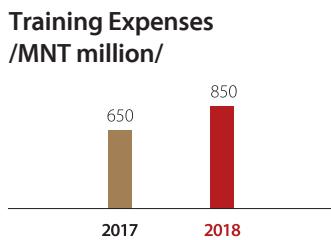
119,000 customers who attempted to connect with the Contact Center through online channels were connected within 1 minute. As a result of the fast connection and streamlined process, resolution time was reduced by 60%, allowing us to save customers' time.

Human Resources

First time in our history, we have organized an All Staff Forum on August 18th 2018 with a goal to unite all of our 1,800 employees under one roof and to give encouragement and pride to be bankers.

2018 Human Resource Achievements

	In 2018, the Bank increased the average salary of	83% of all staff by 15%		Renewed salary classification of	507 existing positions
	KPI assessment sheets were revised and updated for 12 main operations divisions,	60 departments and 701 positions		Organized Job fair event	10 times within 2018



ALL STAFF FORUM – 2018: ONE BIG FAMILY

The forum integrated the Bank's mission and vision into its programs and seminars, providing various subjects to motivate and inspire employees' for personal development, healthy lifestyle, and individual and professional growth.



Every summer we organize the "Summer Academy" that includes all branch directors and executives to enhance and enable their soft skills such as, communication, leadership, teamwork and problem-solving through its comprehensive program of 2 days outside the city.

STAR EMPLOYEE AND STAR MANAGER

We are inclined to be an active supporter of initiators and innovators. Hence, since 2016, we have been holding an annual award ceremony for "STAR EMPLOYEE AND MANAGER" to award one employee and one manager whose contributions have brought immense success to the Bank with extravagant prizes, encouraging those who step beyond their comfort zones to achieve their goals and passion. For example, in 2018 one employee was awarded with a Porsche due to his innovative product and service implementation in gold market, receiving the title of "STAR EMPLOYEE" and one manager was awarded an apartment, becoming the "STAR MANAGER".

Corporate Social Responsibility

Golomt Bank has been providing counseling services to its employees and their families with the goal to educate and assist them on ways to reduce and manage stress and to improve social interactions and productivity by enhancing their work satisfaction.

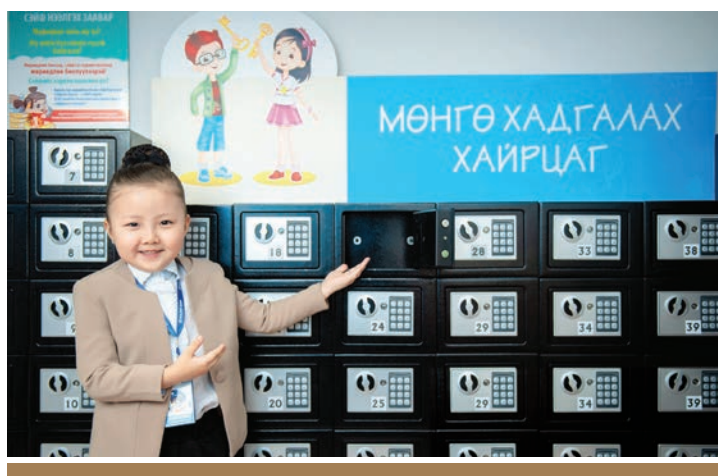


WE VALUE OUR CUSTOMERS' FINANCIAL KNOWLEDGE

Educating our customer is a substantial part of our social responsibility. Within this scope, 63 series of 'For Your Financial Knowledge' program has been launched jointly with the local business radio 98.9, which is being broadcasted on daily series. Furthermore, the series 'Finance Philosophy' was broadcasted on Education TV, local TV station, to promote the financial knowledge of the public. Similarly, various contents in the forms of publications, programs, videos, info-graphic, quiz and 360 pictures are continuously being published on local web pages and social media to foster the usage of financial tools and enhance the public financial knowledge.

DUDU CHILDREN MUSEUM

We have been cooperating with Dudu Museum, the very first Children's Museum in Mongolia. The Museum provides opportunities for children to feel and experience the live environment of 22 different work places and atmospheres though role-playing as a banker, doctor, constructor, astronaut and painter.



CLEAN ENVIRONMENT PROJECT

Golomt Bank employees have teamed up under the Clean Environment Project initiative held on September 15th, 2018 to clean Tuul riverbank area. Over 100 employees were actively involved in the project and collected 200 bags of wastes causing pollution to streams and riverbanks. The project aimed to raise a social awareness regarding environmental protection and to be a socially responsible corporation.



MONGOLIA TRAVEL MAP

We have published Mongolia Travel Map for the second year to encourage and motivate the public to travel through the country's historical attractions and sites, allowing the travelers to have a more efficiently planned trip.

WE CARE FOR OUR PEOPLE - PSYCHOLOGICAL COUNSELING

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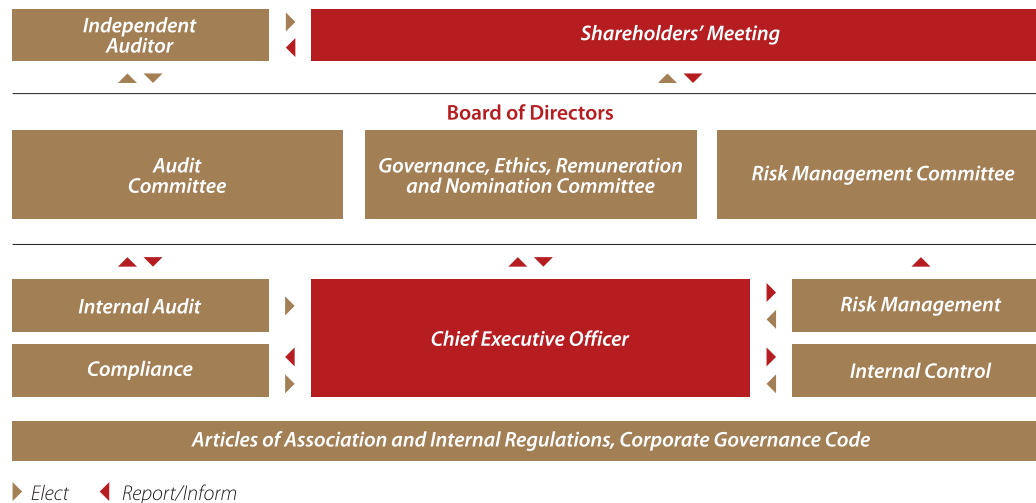
CHILDREN'S DAY

We recognize our responsibility toward society and are inclined to organize events and activities that enable more socio-economic opportunities. Thus, every Children's Day, it is one of the Bank's tradition to have various fun and engaging events, allowing employees and their families to spend more time in the Bank's culture. The signature events include "Golomt Bank in My Family", painting event for kids and "Determining Future Goals and Objectives", a career counseling service for teenagers.

Corporate Governance

We give importance in the structure of our corporate governance structure. Thus, half of the Board of Directors is comprised of independent members including a member elected by 149 employees who are shareholders through the Employee Stock Ownership Program (ESOP). The diverse composition of the Board of Directors allow unbiased decision to be made while ensuring all stakeholders' interests are addressed.

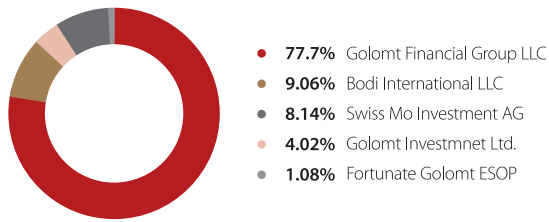
Corporate Governance Structure



In 2018, the Board of Directors met a total of 11 times resolving 40 issues and matters.

In addition to the common shares, Golomt Bank issued preferred shares which is owned 34% by M. Zorigt and the remaining 66% owned by Golomt Financial Group LLC.

YE2018 SHAREHOLDERS



BOARD MEMBERS

1. Chairwoman – Munkhtsetseg. Ch
2. Member – Urs E. Schwarzenbach
3. Member – Munkhtur. D
4. Independent Member – Unenbat. J
5. Independent Member – Antonio L. Abelló
6. Independent Member – James B. Dwyer

BOARD COMMITTEES:

- Audit Committee
- Risk Management Committee
- Governance, Ethics, Remuneration and Nomination Committee

AUDIT COMMITTEE

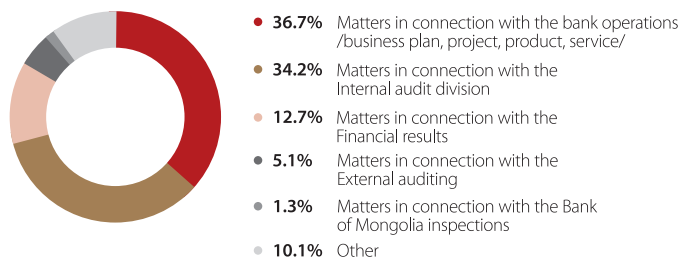
The Audit Committee is comprised of 5 members including 3 independent board members. Mr. Unenbat. J has been the director of Audit Committee since 2017. The Audit Committee focuses on:

- Financial statements
- Internal control system
- Internal audit
- External audit
- Reporting
- Other activities

MATTERS REVIEWED IN 2018

The Committee held total of 12 meetings in 2018, resolving 79 matters and issues in 2018.

Discussed matters



The Audit Committee organizes specialized inspection and examination, reviews confidential documents, and is authorized to request necessary materials from related officials within the Bank.

Moreover, the Audit Committee conducts and discusses authority, policy, and risk of audit division and provides them to the board while monitoring internal audit's efficiency, alignment with international standards, report quality, and implementation of given methodologies.

INTERNAL AUDIT

Internal audit operation is independent from the operations in its auditing activities. The Board approves the Internal Audit Division's policy that includes operational scope, authority, and purpose. Internal audit presents its operations and activities to the Board and Audit Committee while providing the reports related to units that are audited to the executives.

Main functions:

- Evaluate and confirm that corporate governance, risk management, and internal control structures are working efficiently
- Accurately define and evaluate any potential risks when implementing Bank's strategy and mission
- Confirm if all executives, employees, and branch companies are following and implementing the related laws, policy, governance standards, and official decisions
- Evaluate the efficiency of Bank's operation, system, and projects while confirming whether the Bank's operation is aligned with the related law, policy, regulation, and governance standards
- Conducts advisory service to improve and inspect Bank's operations as per request of executives.

Internal audit has started implementing strategy based audit and switched to Agile Audit Approach. The division uses 3+9 principles, a quarterly risk-evaluation system, as suggested by Internal Audit Association – Global when conducting risk evaluation and changes audit plans based on the evaluation result.

For the first time in Mongolia, the Internal Audit division provided a 10-day training to the employees of one of the largest banks in Bhutan upon the request by IFC.

THE RISK MANAGEMENT COMMITTEE

The Risk Management Committee is responsible for creating a unified risk management framework. During the reporting period, compliance and credit policies were improved and credit risk limit policies were renewed. In 2018, the Risk Management Committee met a total of 17 times to address and make recommendations to 30 issues and matters.

THE GOVERNANCE, ETHICS, REMUNERATION AND NOMINATION COMMITTEE

Governance, Ethics, Remuneration and Nomination Committee directs and defines human resource and remuneration policies and resolves matters related to ethics and governance. In addition, the committee evaluates the performances of Board and CEO while providing advisory service to the executives. During the reporting period, the committee met a total of 4 times to resolve and make recommendations to 11 issues and matters.

Operating Environment

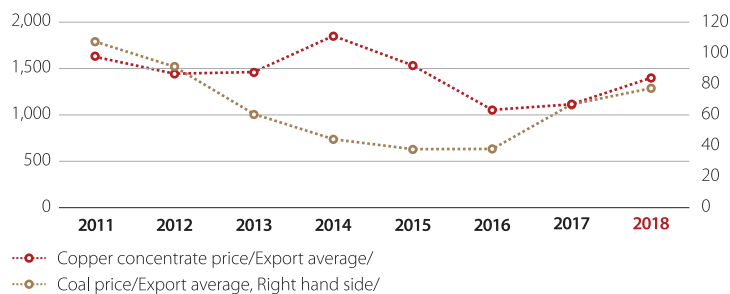
The total Foreign Direct Investment (FDI) reached USD 1.9 billion in 2018 and 82% of the total FDI was invested into the mining sector. An investment of USD 800 million out of the total USD 1.9 billion FDI was made by Oyu Tolgoi LLC to the mining sector. Despite the improved FDI inflow in 2018, decrease in both services and goods export resulted in negative balance of payment.



MACRO-ECONOMIC ENVIRONMENT CONTINUED RECOVER IN 2018

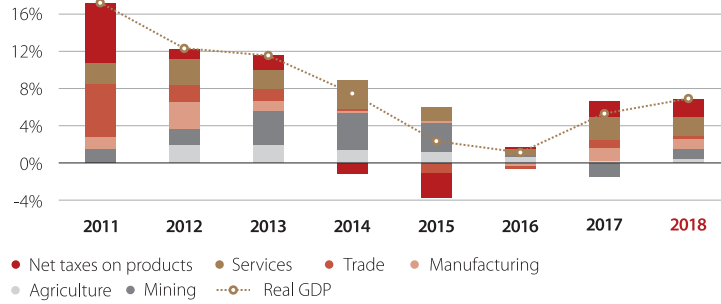
The economic growth rate had been dramatically declining since 2011's economic boom until the end of 2016 due to political instability, lower commodity prices and reduced inflow of FDI. 2018 has been a positive year in terms of macro environment for Mongolia with signs of economic recovery. Higher commodity prices have been the main driver to the economic growth which resulted in GDP growth of 6.9%. Moreover, the expansionary monetary policy and the IMF's Extended Fund Facility (EFF) program have also added substantial value and fuel to the economic growth.

Figure 1: Commodity Prices: In USD per ton



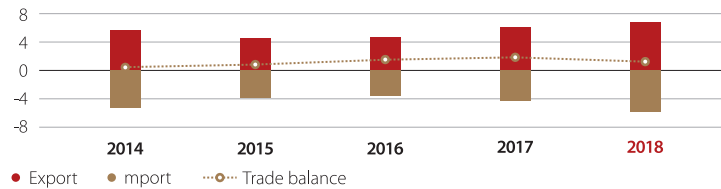
The recovery of the mining industry created a ripple effect for other non-mining sectors enabling them to grow. The service sector has provided the largest contribution to GDP growth by growing 12% Year-over-Year.

Figure 2: GDP Growth Composition: Supply Side



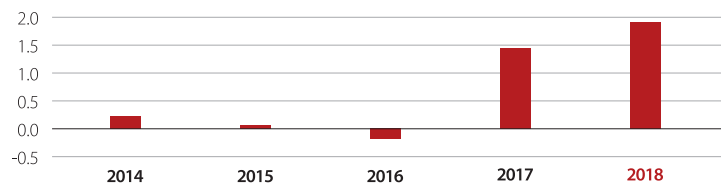
Export reached USD 7 billion with captured growth of 13% while import reached USD 5.9 billion with growth of 35% compared to the previous year. As a result, trade balance surplus has decreased to USD 1.1 billion.

Foreign Trade Balance (USD billion)



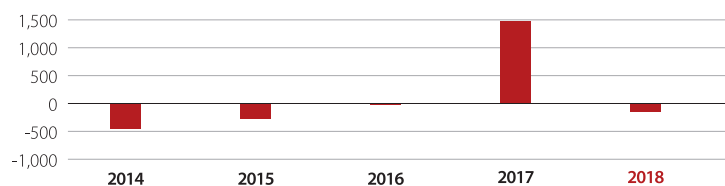
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Figure 4: Foreign Direct Investment (USD billion)



The negative balance of payment caused the MNT to depreciate against the USD by 9%. As MNT weakened against USD at a time of economic growth period, the Central Bank of Mongolia hiked its policy rate to 11%. As various import products are accounted in the consumer goods index, MNT depreciation caused inflation rate to increase as well.

Figure 5: Balance of Payment (USD million)



The country's economy is expected to grow for the next two years supported by stable commodity prices. Based on the stated factors above, the real GDP growth is forecasted to be 6.8% in 2019 and 6.3% in 2020 respectively.

Figure 6: USD to MNT Historical Chart

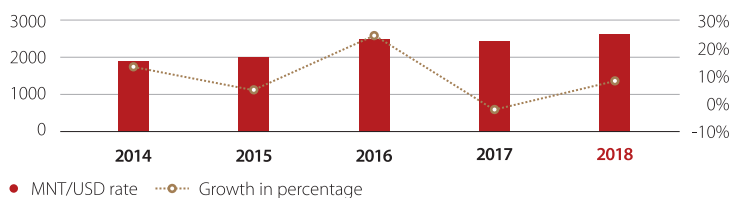


Figure 7: Inflation Rate

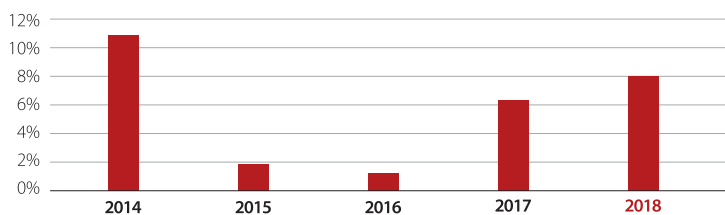
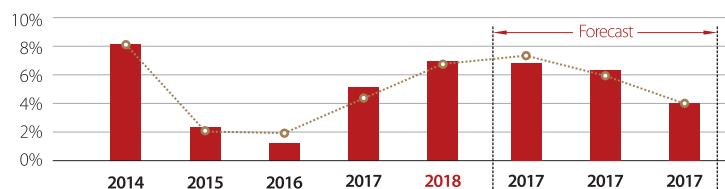


Figure 8: Economic Growth Forecast



BANKING SECTOR OVERVIEW - EXPANSIONARY MONETARY POLICY AND GROWING ASSETS

The Central Bank of Mongolia introduced its expansionary monetary policy in 2016 which continued to take place until November 2018. The banking sector benefited from the expansionary monetary policy and total deposit of the banking sector reached MNT 18.8 trillion excluding M1.

Figure 9: Policy Rate

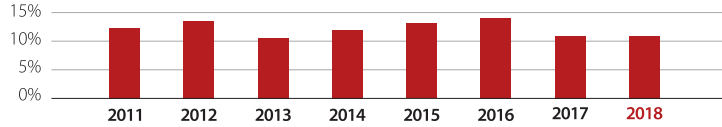
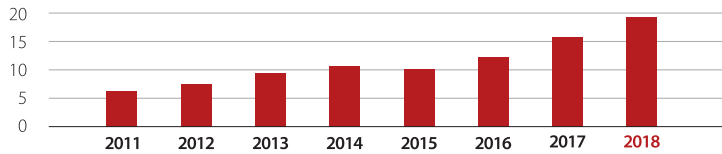
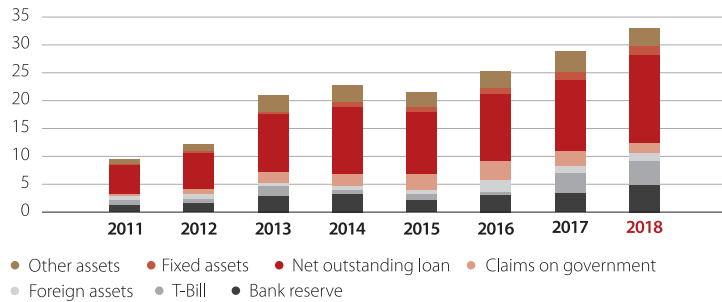


Figure 10: Money Supply (MNT trillion)



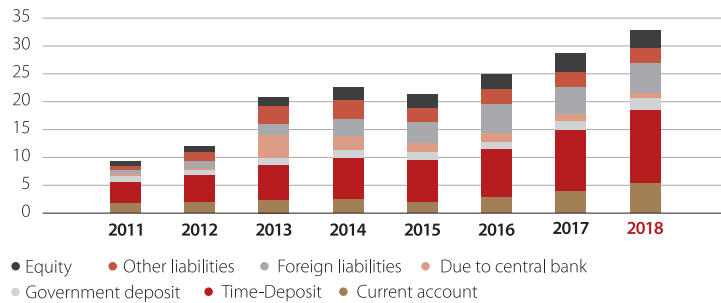
Total assets of the banking sector reached MNT 33.1 trillion in 2018 with growth of 15% compared to the previous year. In terms of asset growth, the bank reserves grew by 33%, net outstanding loans grew by 24% and total equity grew by 15%. The Central Bank’s bond grew by 29% while the government receivable declined by 43%.

Banking Sector: Assets



Total liabilities of the banking sector reached MNT 29.8 trillion with Year-over-Year growth of 16.3%. The major contributors to the growth were the time-deposits accounting for 17.9%, current accounts making up 37.4% and the government deposit accounting for 29.7%.

Banking Sector: Liabilities



Non-Performing Loan (NPL) increased to 10.4% from 8.5% in 2018 due to AQR impact (Asset Quality Review). AQR covered up to 91% of all outstanding corporate loans in the banking sector which was conducted by PwC. The highest NPL was in the mining sector with a ratio of 38% which was 18% higher than the previous quarter. Although 12 of the 14 banks reported a profit, the banking system as a whole reported a negative profit of MNT 97 billion.

Risk Management

In 2018, Golomt bank implemented successfully the IFRS 9 financial asset classification and measurement system, ahead of the regulatory requirement. This forward looking model of viewing expected credit loss will allow the Board and Senior management of the bank to manage all financial risks better, in line with best international practice.

Risk Management

Our risks framework helps us identifying forward looking risks so that we may take action either to prevent them materializing or limit their effect.

We fully acknowledge the importance of optimal risk and reward balance and is committed to applying risk awareness based approach at all levels of the bank while safeguarding the interests of shareholders, depositors, customers, clients and other stakeholders. The board approves appropriate risk limits and policies while monitoring the implementation on a quarterly basis. The below principles are essential for implementation of the risk management system throughout the bank:

- Risk and Reward Ratio: Provides coordination between business strategy, risk management policy and risk appetite
- Risk Perception: Accurately define all financial and non-financial risks that could obstruct the Bank's operation
- Forward-looking Risk Management: Prevent and mitigate potential risks
- Customer-Centric: Understand the needs and requirements of our clients for risk management
- Awards and Assessment System: Strengthen the risk management compliance of all units through an awards and assessment system

Credit risk

LEARNING FROM AND IMPLEMENTING INTERNATIONAL BEST PRACTICE

In 2018, Golomt bank implemented successfully the IFRS 9 financial asset classification and measurement system, ahead of the regulatory requirement. This forward looking model of viewing expected credit loss will allow the Board and Senior management of the bank to manage all financial risks better, in line with best international practice.

The bank's Risk management and Credit divisions implemented an improved behavioral credit scoring model, advanced notification of credit evaluation scoring in order to support the growing importance of credit card business, retail and SME lending in Golomt bank's books.

As a lesson from and follow up to the Asset Quality Review process of 2017, the bank implemented international loan collateral valuation standard – IVS for vast majority of corporate and SME loan collaterals.

Through the renewed risk management system and newly implemented IFRS 9 standards, the loan concentration decreased while complying with the requirements set by the regulators. In addition, the system increased time efficiency in settling NPLs through court and control processes by improved classification.

MARKET RISKS

Liquidity

Golomt bank has a comfortable liquidity position, based on its commercial strength and balanced business model, with a strong weighting of customer deposits and robust liquid asset buffers. The standard liquidity ratio has been managed down to 41.6% by the end of 2018 from 44.21% in 2017 and 45% in 2016 respectively, well above the regulatory requirement of 25%.

While not required by the regulator, the bank started using also Basel 3 compliant liquidity metrics. The long term ratio (NSFR) maintained comfortable levels above 100% and the short term ratio (LCR) stood at 124% complying with the regulatory requirement of 80%. Short and long-term liquidity metrics are well within the risk appetite levels established for the bank by the Board.

Aligned with international standards by improving macroeconomic and market risk forecast models

Macroeconomic forecasting and economic sector analyses became an integral part of Golomt bank's business strategy and risk management processes since 2016. This year, the Economic Research Unit further improved Bank's macroeconomic forecast model and started publishing a consumer sentiment index - first of its kind in Mongolia. The unit regularly publishes economic researches in public media and news outlets to increase the financial education of customers.

The risk management division is planning to reform the fundamentals of risk management methodologies by aligning loan portfolio risk management to Basel standards and separating the asset and liability management tools and performance of the treasury trading portfolio of the bank.

Maintained a policy to prevent clients from taking potential risks and cultivated risk aware culture within the bank's internal operations

In order to strengthen the risk culture of the internal operations, daily monitoring and evaluation of each employee have been implemented, hence increased the responsibility of employees while preventing operational risks. As for the clients, the complex risk prevention program regarding financial fraud, transactional risks, and cyber-attacks are being conducted successfully. The risk management division is currently concentrating on preventing potential IT related delays and risks through the implementation of international best practices.

OPERATIONAL RISKS

Completion of the operational risk advanced measurement system.

Cyber risk strategy reinforcement, with the improvement of the anticipation, defense and awareness capacities.

Development of control and critical risk methodologies to prioritize their management.

Compliance

The compliance department of the bank operates under the direct supervision of the CEO with the purpose to improve control process of implementing the Bank's code of ethics, governance code and other standards and principles in line with applicable laws and regulations issued by domestic and international jurisdictions. Compliance department presents compliance policy implementation reports and issues the reports to the Board of Directors on quarterly basis.

The Compliance Ambassadors Program was launched to ensure the implementation of policies approved by the Board of Directors to strengthen the first line of defense of risk management, and identification of failures at an early stage. The over 100 "Compliance Ambassadors" serve as liaison officers for Compliance in each business unit of the bank.

The Bank has implemented and complies with relevant international standards and principles including, but not limited to FATF (otherwise known as 40 Recommendations of the Financial Action Task Force), recommendations issued by Wolfsberg Group and the Basel Committee in addition to applicable domestic laws and regulations. Moreover, the Bank complies with relevant sections of the U.S. Patriot Act (counter terrorism requirements set by the law of the United States of America). The Bank became FATCA-compliant beginning in July 2014.

In 2018, the Bank revised its AML/CFT Procedure and relevant guidelines in line with the regulatory changes. In addition, the Bank successfully implemented a project to further enhance its documentation standards for drafting policy, procedures and guidelines.

We are committed to developing and implementing internationally recognized best practice models to our operations, structure, scope and standards of the Compliance Department of the bank. In line with this goal, compliance and counter financial crimes management functions are being developed together to meet requirements set by regulator.

TOP 2018 COMPLIANCE EVENTS

Enhancing compliance culture and framework

- We constantly invest in our employees and provide training from the best in the industry. All compliance officers are certified specialists in their respected areas of expertise, and senior officers hold CAMS®, CCEP-I® certification designations.
- In return, compliance officers provide comprehensive training to all employees through Compliance ambassador programs.

Contributing extensively to compliance development of the Mongolian finance sector

Golomt Bank has successfully led the Compliance Professional Council of Mongolian Bankers Association and initiated coordination with regulators regarding enhancement of AML/CFT framework of Mongolia in 2018. The Bank hosted and co-organized the 6th Annual Compliance Forum in cooperation with the Mongolian Bankers Association and The Central Bank of Mongolia in November, 2018. The Forum covered topics such as AML/CFT, regulatory compliance and corporate governance, thus giving a comprehensive knowledge on Compliance to attendees. The full day Forum was unique in its way because it covered broader content compared to the previous year's forum and received positive response from international and domestic experts and professionals.

Financial Statements

Summary of Independent Auditor's Report



GOLOMT BANK

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

31 December 2018



Golomt Bank LLC
GOLOMT BANK LLC
Corporate Information

Incorporation decision	Golomt Bank (the "Bank") was incorporated as a wholly owned subsidiary of Bodi International LLC in accordance with the decision of shareholders of Bodi International LLC on 06 March 1995.	
Certificate and License	<p>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.</p> <p>The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia.</p>	
Board of Governors	<p>Ch.Munkhtsetseg</p> <p>Urs E. Schwarzenbach</p> <p>D.Munkhtur</p> <p>J.Unenbat</p> <p>López Abelló</p> <p>James B. Dwyer</p>	<p>Chairwoman</p> <p>Member</p> <p>Member</p> <p>Independent Member</p> <p>Independent Member</p> <p>Independent Member</p>
Executive Officers	<p>U.Ganzorig</p> <p>G.Ganbold</p> <p>Tomas Bravenec</p> <p>T.Nyamsuren</p> <p>Ch.Davaadash</p> <p>M.Chimegmunkh</p> <p>A.Enkhbayar</p> <p>B.Bayartbileg</p> <p>T.Batzul</p> <p>Yo.Purevbat</p> <p>N.Tumendemberel</p> <p>D.Badral</p> <p>M.Sainbileg</p> <p>A.Odonbaatar</p> <p>M.Narankhuu</p>	<p>Chief Executive Officer</p> <p>President</p> <p>Deputy CEO</p> <p>Deputy CEO</p> <p>Deputy CEO</p> <p>Director of Financial Management Division</p> <p>Director of Risk Management Division</p> <p>Director of Credit Division</p> <p>Director of Business Development Division</p> <p>Director of Operations Division</p> <p>Director of Channel Management Division</p> <p>Director of Corporate Banking Division</p> <p>Director of Information Technology Division</p> <p>Chief Audit Executive</p> <p>Director of Business Process Management</p>
Registered office	<p>Head Office of Golomt bank Sukhbaatar Square 5, P.O.Box 22 Ulaanbaatar 15160, Mongolia</p>	
Auditors	<p>PwC Audit LLC Central Tower, Floor 6, Suite 601 Sukhbaatar Square, SDB-8 Ulaanbaatar 14200, Mongolia</p>	



Independent Auditor's Report

To the Shareholders and Board of Directors of Golomt Bank LLC

Our opinion

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

What we have audited

The Bank's financial statements financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

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



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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



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

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

Signed by:

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

A circular red stamp is positioned behind the signature. The outer ring contains the text 'УЛААНБААТАР ХОТ' at the bottom and 'PWC WATERHOUSE COOPERS AUDIT LLC' at the top. The center of the stamp contains the text 'PricewaterhouseCoopers Audit LLC' and 'ТТ 5162400'.

Approved by:


Shaukat Tapia
Director
PricewaterhouseCoopers Audit LLC

Ulaanbaatar, Mongolia
29 March 2019

Golomt Bank LLC

Statement of Financial Position

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

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



CH. MUNKHTSETSEG
Chairwoman, Board of Governors




M. CHIMEGMUNKH
Chief Financial Officer

Golomt Bank LLC

Statement of Profit or Loss and Other Comprehensive Income

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

Golomt Bank LLC

Statement of Changes in Equity

	Attributable to owners of the Bank								
<i>In thousands of Mongolian Tugriks</i>	Preferred shares	Share capital	Share premium	Revaluation reserve for AFS securities	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Other reserves	Retained earnings	Total equity
Balance at 31 December 2016	25,778,900	26,367,593	46,583,557	4,820,387	-	9,644,868	12,939,396	240,438,730	366,573,431
Profit for the year	-	-	-	-	-	-	-	(5,152,854)	(5,152,854)
Other comprehensive income	-	-	-	35,510,839	-	(5,242,377)	-	-	30,268,462
Total comprehensive income for 2017	-	-	-	35,510,839	-	(5,242,377)	-	(5,152,854)	25,115,608
Transfer of revaluation surplus on premises	-	-	-	-	-	(440,582)	-	440,582	-
Transfer from regulatory reserve to retained earnings	-	-	-	-	-	17,192,767	(17,192,767)	-	-
Balance at 31 December 2017	25,778,900	26,367,593	46,583,557	40,331,226	-	3,961,909	30,132,163	218,533,691	391,689,039
Adoption of IFRS 9:									
- remeasurement for expected credit losses, net of tax	-	-	-	-	-	-	-	(55,832,933)	(55,832,933)
- reclassification and remeasurement of financial assets, net of tax	-	-	-	(40,331,226)	(1,431,363)	-	-	41,762,589	-
Restated balance at 1 January 2018	25,778,900	26,367,593	46,583,557	-	(1,431,363)	3,961,909	30,132,163	204,463,347	335,856,106
Profit for the year	-	-	-	-	-	-	-	53,546,240	53,546,240
Other comprehensive income	-	-	-	-	(7,666,632)	3,000,000	-	-	(4,666,632)
Total comprehensive income for 2018	-	-	-	-	(7,666,632)	3,000,000	-	53,546,240	48,879,608
Share issue	-	5,173,444	69,826,556	-	-	-	-	-	75,000,000
Issue of preferred shares	50,000,000	-	-	-	-	-	-	-	50,000,000
Conversion of the subordinated loans	-	780,820	11,219,180	-	-	-	-	-	12,000,000
Dividends declared and paid	-	-	-	-	-	-	-	(8,660,088)	(8,660,088)
Transfer of revaluation surplus on premises	-	-	-	-	-	(106,667)	-	106,667	-
Transfer to regulatory reserve	-	-	-	-	-	-	46,613,496	(46,613,496)	-
Balance at 31 December 2018	75,778,900	32,321,857	127,629,293	-	(9,097,995)	6,855,242	76,745,659	202,842,670	513,075,626

Golomt Bank LLC

Statement of Cashflow

<i>In thousands of Mongolian Tugriks</i>	Note	2018	2017
Cash flows from operating activities			
Profit/(loss) before tax		75,599,800	(12,082,935)
Adjustments to:			
Credit loss allowance	14	66,150,713	33,411,559
Losses less gains from financial assets at fair value through profit or loss		6,339,847	(3,370,866)
Gains less losses from financial derivatives		(93,418,196)	65,296,303
Gains less losses from modification of financial assets measured at amortised cost, that did not lead to derecognition		1,293,892	-
Impairment of debt securities at fair value through other comprehensive income		793,026	-
Reversal of expected credit loss allowance of debt securities at amortised cost		(1,069,763)	-
Losses on initial recognition of assets at rates below market		16,943,013	-
Gain less losses from disposals of investment securities available for sale	18	-	(1,877,287)
Gain on disposal of properties	34	2,501,390	(12,751)
Foreign exchange (gains)/losses		19,049,921	(21,033,400)
Provision for other assets	20	2,666,983	167,175
Impairment charge for buildings	22	26,600,000	20,157,623
Reversal of provision for credit related commitment		(393,454)	(119,797)
Losses less gains from investment properties	18	3,023,845	-
Losses less gains from non-current asset held for sale	24	(1,920,631)	3,774,036
Depreciation expense	22	9,757,418	8,762,817
Amortisation expense	21	2,647,120	1,619,599
Property and equipment written off		18,591	58,703
Impairment provision for repossessed collateral	23	6,546,401	(286,172)
Non cash dividend received		(403,294)	(2,763,321)
Interest income	32	(493,960,928)	(409,219,855)
Interest expense	32	323,255,156	287,229,507
Cash flows used in operating activities before changes in operating assets and liabilities		(27,979,150)	(30,289,062)
(Increase) in mandatory cash balances with the Bank of Mongolia		(60,043,603)	(79,396,194)
(Increase) in due from other banks		(107,077,239)	181,338,414
Decrease in trading securities		-	44,728,636
Decrease in debt securities at fair value true profit or loss		174,529,874	-
Decrease in equity securities at fair value true profit or loss		18,184,576	-
(Increase) in loans and advances		(1,200,251,752)	(503,031,996)
(Increase) in other assets		755,462	(15,748,710)
(Increase)/decrease in repossessed collateral		1,417,442	(6,335,430)
(Increase)/decrease in Non-Current Assets Classified as Held for Sale		12,111,094	15,853,154
(Decrease)/increase in due to banks		(239,425,506)	263,016,245
Increase in customer account		935,753,814	634,219,508
(Decrease)/increase in to other liabilities		(9,053,792)	18,185,078
Net cash used in operating activities before tax and interest		(501,078,780)	522,539,643
Tax paid		(6,035,111)	6,930,081
Interest received		475,288,525	421,086,080
Interest paid		(323,629,516)	(267,399,930)
Net cash provided used in operating activities		(355,454,882)	683,155,874

Golomt Bank LLC

Statement of Cashflow

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

The MIK-SPC transactions that did not require the use of cash and cash equivalents and were excluded from the Statement of Cash Flows.

Non cash transfers from Loans and advances to Repossessed collaterals, from Repossessed collaterals to Non-current asset held for sale and investment properties were excluded from the Statement of Cash Flows. Refer to Note 18, Note 23 and Note 24.

7. Cash and Cash Equivalents

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

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

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

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

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

For the purpose of ECL measurement, cash and cash equivalents balances are included in Stage 1 as of 31 December 2018 and 31 December 2017. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents.

8. Mandatory reserves with the Bank of Mongolia

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

Current accounts with the Bank of Mongolia are maintained in accordance with the regulations of the Bank of Mongolia. The mandatory cash balances maintained with the Bank of Mongolia are determined at not less than 12.0% (2017: 12.0 %) of customer deposits for a period of 2 weeks.

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

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

The ECL for these balances represents an insignificant amount; therefore, the Bank did not recognise any credit loss allowance.

9. Financial assets at fair value through profit or loss

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

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

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

Government bonds designated at fair value through profit or loss

Government bonds are issued by the Ministry of Finance with original maturities ranging from 7 to 85 months and issued at a discount.

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

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

Other financial assets at fair value through profit or loss

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

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

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

Analysis by credit quality of trading securities based on Standard & Poor's ratings is as follows at 31 December 2017:

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

10 Reverse repurchase agreements

As of 31 December 2018, the reverse repurchase agreement relates to a short-term agreement with local bank, earning interest rate 9% p.a. with original maturity 3 days. The reverse sale and repurchase agreement is fully collateralized by the Bank of Mongolia treasury bills, which the Bank has the right, by contract to sell or re-pledge in the case of non-repayment.

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)
- Special monitoring	99,975,351
Gross carrying amount	99,975,351
Less: Credit loss allowance	-
Carrying amount	99,975,351

The ECL for reverse repurchase agreements represent an insignificant amount, therefore the Bank did not recognise any credit loss allowance for these balances.

11 Due from Other Banks

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

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

The following table contains an analysis of due from other banks balances by credit quality at 31 December 2018 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurement. The carrying amount of due from other banks balances at 31 December 2018 below also represents the Bank's maximum exposure to credit risk on these assets

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Notes to the Financial Statements – 31 December 2018

11 Due from Other Banks (continued)

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

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

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

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

12 Investments in Debt Securities

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

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

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

(a) Treasury bills of the Bank of Mongolia

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

(b) MIK bonds

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

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

(c) Corporate bonds

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

(d) Government bonds

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

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

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

12 Investment in debt securities (continued)

Investments in debt securities at FVTOCI

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

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

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

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

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)
Government bonds	
- Satisfactory	542,973
Less: Credit loss allowance	(5,029)
Carrying value (fair value)	537,944

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

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

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Investments in debt securities at AC

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

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

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

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

13 Investments in Equity Securities

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<i>In thousands of Mongolian Tugriks</i>	31 December 2018
Equity securities at FVOCI (b)	72,798,762
Equity securities at FVTPL (a)	32,894,926
Total investments in equity securities	105,693,688

13 Investments in Equity Securities (continued)

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

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

(a) Investments in equity securities at FVTPL

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

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

(b) Investments in equity securities at FVOCI

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

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

As at 31 December 2018 and 31 December 2017, the Bank owned 10% of investment units of the Fund, which invested its funds in real estate properties in early 2015. The total investment amounts to MNT 58,000 thousand and management believes that it is fully recoverable as at 31 December 2018 and 31 December 2017, given the assessment of the value of purchased properties done by third party i.e. independent qualified appraisers and the assessment of the Bank's internal specialists.

Management has assessed that it does not have either control or significant influence on the operating and financial decisions and activities of the Fund, and therefore this investment is classified as investment in equity securities at FVOCI in accordance with IFRS 9 requirements. The Fund has operated since the special license was issued by the Financial Regulatory Commission in October 2015.

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

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14 Loans and Advances to Customers

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

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

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

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

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

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

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

14 Loans and Advances to Customers (Continued)

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

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

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

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

14 Loans and Advances to Customers (Continued)

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

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

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

14 Loans and Advances to Customers (Continued)

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

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

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

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

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors. Below main movements in the table are described:

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

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

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

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to Corporate				
- Excellent	1,011,649,610	15,476,604	293,302,011	1,320,428,225
- Good	-	-	11,618,418	11,618,418
- Satisfactory	-	40,343,460	-	40,343,460
- Default	-	-	45,733,754	45,733,754
Gross carrying amount	1,011,649,610	55,820,064	350,654,183	1,418,123,857
Less: Credit loss allowance	(21,500,948)	(8,807,707)	(46,451,833)	(76,760,488)
Carrying amount	990,148,662	47,012,357	304,202,350	1,341,363,369
Loans to SME				
- Excellent	505,255,571	3,342,668	52,699,013	561,297,252
- Good	5,552,755	1,047,854	451,307	7,051,916
- Satisfactory	-	5,156,055	1,890,804	7,046,859
- Special monitoring	-	3,434,388	3,237,141	6,671,529
- Default	-	-	92,783,674	92,783,674
Gross carrying amount	510,808,326	12,980,965	151,061,939	674,851,230
Less: Credit loss allowance	(4,053,895)	(280,435)	(51,963,818)	(56,298,148)
Carrying amount	506,754,431	12,700,530	99,098,121	618,553,082
Consumer loans				
- Excellent	830,206,239	32,230	18,906,073	849,144,542
- Good	3,229,720	3,848,133	127,976	7,205,829
- Satisfactory	-	5,012,916	257,198	5,270,114
- Special monitoring	-	3,052,077	255,308	3,307,385
- Default	-	-	28,642,596	28,642,596
Gross carrying amount	833,435,959	11,945,356	48,189,151	893,570,466
Less: Credit loss allowance	(8,751,589)	(2,034,879)	(25,659,564)	(36,446,032)
Carrying amount	824,684,370	9,910,477	22,529,587	857,124,434
Mortgage loans				
- Excellent	225,055,462	146,510	4,987,405	230,189,377
- Good	237,202	747,345	523,189	1,507,736
- Satisfactory	-	1,317,286	1,090,664	2,407,950
- Special monitoring	-	440,346	600,870	1,041,216
- Default	-	-	8,475,763	8,475,763
Gross carrying amount	225,292,664	2,651,487	15,677,891	243,622,042
Less: Credit loss allowance	(350,927)	(120,955)	(2,923,728)	(3,395,610)
Carrying amount	224,941,737	2,530,532	12,754,163	240,226,432

14 Loans and Advances to Customers (Continued)

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

<i>In thousands of Mongolian Tugriks</i>	Corporate loans	Loans to small and medium business	Consumer loans to individuals	Mortgage loans to individuals	Total
<i>Neither past due nor impaired</i>					
Excellent	661,159,420	354,284,499	457,607,649	329,519,438	1,802,571,006
Good	86,943,886	290,417	-	-	87,234,303
Restructured	121,524,370	22,944,621	58,221	122,346	144,649,559
Total neither past due nor impaired	869,627,677	377,519,537	457,665,870	329,641,784	2,034,454,868
<i>Past due but not impaired</i>					
- less than 30 days overdue	9,057,825	2,616,793	1,735,644	1,929,375	15,339,636
- 31 to 90 days overdue	44,902,435	15,430,196	2,617,293	4,396,432	67,346,356
- 91 to 180 days overdue	-	15,714,104	1,761,691	2,368,133	19,843,928
- 181 to 360 days overdue	26,858,834	17,942,172	2,232,962	2,329,074	49,363,042
- over 360 days overdue	47,539,735	53,836,991	5,425,116	7,291,518	114,093,359
Total past due but not impaired	128,358,829	105,540,256	13,772,706	18,314,532	265,986,322
<i>Loans individually determined to be impaired (gross)</i>					
- less than 30 days overdue	-	17,630,663	-	-	17,630,663
- 31 to 90 days overdue	33,093,936	-	-	-	33,093,936
- 91 to 180 days overdue	-	-	-	-	-
- 181 to 360 days overdue	7,883,159	5,274,823	-	-	13,157,982
- over 360 days overdue	30,765,279	18,501,901	-	-	49,267,180
Total individually impaired loans (gross)	71,742,373	41,407,388	-	-	113,149,761
Less: Impairment provisions	(55,769,747)	(27,227,317)	(8,648,259)	(3,887,426)	(95,532,750)
Total loans and advances to customers	1,013,959,132	497,239,865	462,790,317	344,068,889	2,318,058,202

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

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

14 Loans and Advances to Customers (Continued)

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

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

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

<i>In thousands of Mongolian Tugriks</i>	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	Total
Loans collateralised by:					
- residential real estate	391,113,266	232,011,502	7,724,038	327,357,323	958,206,129
- other real estate	299,762,300	137,442,307	1,070,813	3,895,146	442,170,566
- tradable securities	43,847,241	8,670,801	-	21,225	52,539,267
- cash deposits	92,157,547	28,889,527	113,482,514	8,231,921	242,761,510
- other assets	242,848,524	117,453,044	91,997,484	8,450,701	460,749,754
Total	1,069,728,878	524,467,181	214,274,849	347,956,316	2,156,427,225
Unsecured exposures	-	-	257,163,726	-	257,163,726
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	1,069,728,878	524,467,181	471,438,576	347,956,316	2,413,590,952

Other assets mainly include equipment and receivables. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

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

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

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral on credit-impaired assets at 31 December 2018 is as follows.

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

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

<i>In thousands of Mongolian Tugriks</i>	Over-collateralized assets		Under-collateralized assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	1,000,517,224	7,511,920,278	69,211,678	42,991,925
Loans to small and medium business	475,777,656	1,920,033,660	48,689,525	33,064,152
Consumer loans to individuals	160,826,950	892,193,243	310,611,576	52,338,684
Mortgage loans to individuals	345,509,857	649,331,217	2,446,316	1,526,407
Total	1,982,631,687	10,973,478,398	430,959,095	129,921,168

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

14 Loans and Advances to Customers (Continued)

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

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

Other assets mainly include land. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at FVTPL, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). There are loans at FVTPL in amount of MNT 2,666,257 thousand, which are over-collateralised, and MNT 1,192,063 thousand which are under-collateralised at 31 December 2018.

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

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

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

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

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

15 Short-term Investment Securities

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

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

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

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

16 Investment Securities Available for Sale

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

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

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

Fair value gains of MNT 47,359,915 thousand in other comprehensive income for the year ended 2017 represents the fair value adjustment of available for sale investment.

Purchases and disposals of unquoted securities represent movement of Senior Tranche of MIK bond.

17 Investment Securities Held to Maturity

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

Golomt Bank LLC

(a) Government bonds

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

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

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

(b) MIK bond

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

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

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

During 2017, the Bank sold Senior Tranche RMBS notes in amount of MNT 74,142,400 thousand to the Bank of Mongolia as repayment of 4% funding received under mortgage lending program.

(c) Promissory Notes

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

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

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

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

Golomt Bank LLC

Notes to the Financial Statements – 31 December 2018

18 Investment Properties

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

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

The Bank's intention is to keep the premises for the purposes of earning rental income, capital appreciation, or both, and not to occupy premises by the Bank.

19 Investment in Subsidiary

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

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

Golomt Bank LLC

20 Other Assets

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

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

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

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
Receivables from companies			
- Excellent	13,727,827	-	13,727,827
- Good	258,553	-	258,553
- Default	-	5,207,338	5,207,338
Gross carrying amount	13,986,380	5,207,338	19,193,718
Less: Credit loss allowance	(196,110)	(5,207,338)	(5,403,448)
Carrying amount	13,790,270	-	13,790,270
Receivables from individuals			
- Excellent	26,768	-	26,768
- Good	36,317	-	36,317
- Satisfactory	186,616	-	186,616
- Default	-	2,764,038	2,764,038
Gross carrying amount	249,701	2,764,038	3,013,739
Less: Credit loss allowance	(111,778)	(2,742,452)	(2,854,230)
Carrying amount	137,923	21,586	159,509

Golomt Bank LLC

Notes to the Financial Statements – 31 December 2018

20 Other Assets (Continued)

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

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)
Other financial assets	
- Excellent	1,464,870
Gross carrying amount	1,464,870
Less: Credit loss allowance	-
Carrying amount	1,464,870

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

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

Golomt Bank LLC

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

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

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

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

21 Intangible Assets

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

22 Premises and Equipment

<i>In thousands of Mongolian Tugriks</i>	Premises	Motor vehicles	Office equipment and computers	Furniture	Leasehold improvement	Construction in progress	Total premises and equipment
Cost/valuation at 1 January 2017	151,916,380	2,609,801	32,611,104	6,221,730	1,611,900	14,546,855	209,517,770
Accumulated depreciation	(7,661,707)	(1,278,934)	(26,144,277)	(2,268,710)	(1,155,499)	-	(38,509,127)
Carrying amount at 1 January 2017	144,254,673	1,330,867	6,466,827	3,953,020	456,401	14,546,855	171,008,643
Additions	1,776,573	72,300	6,756,920	531,010	1,812,166	6,096,331	17,045,300
Transfers	-	-	2,328,372	(15,912)	-	(2,312,460)	-
Disposals	-	(100,000)	(53,066)	(9,784)	-	(13,210,625)	(13,373,475)
Write-offs	-	-	(581,746)	(37,058)	-	-	(618,804)
Depreciation for the year	(3,794,039)	(228,183)	(3,875,130)	(334,022)	(531,443)	-	(8,762,817)
Transfers	-	-	(2,426)	2,426	-	-	-
Disposals	-	34,918	52,035	9,221	-	-	96,174
Write-offs	-	-	543,022	17,079	-	-	560,101
Impairment charge	(25,400,000)	-	-	-	-	-	(25,400,000)
Carrying amount at 31 December 2017	116,837,207	1,109,902	11,634,808	4,115,980	1,737,124	5,120,101	140,555,122
Cost/valuation at 1 January 2018	128,292,953	2,582,101	41,061,584	6,689,986	3,424,066	5,120,101	187,170,791
Accumulated depreciation	(11,455,746)	(1,472,199)	(29,426,776)	(2,574,006)	(1,686,942)	-	(46,615,669)
Carrying amount at 1 January 2018	116,837,207	1,109,902	11,634,808	4,115,980	1,737,124	5,120,101	140,555,122
Additions	19,449,909	882,614	3,888,879	842,958	2,229,978	4,888,205	32,182,543
Transfers	-	1,115	4,529,306	45,947	-	(4,691,519)	(115,151)
Disposals	(8,708,657)	(436,939)	(109,409)	(3,281)	-	(305,079)	(9,563,365)
Write-offs	-	-	(651,898)	(110,357)	-	(19,656)	(781,911)
Depreciation for the year	(3,390,412)	(255,911)	(4,753,852)	(358,296)	(998,947)	-	9,757,418)
Transfers	-	-	7,436	1,816	-	-	9,252
Disposals	-	285,165	109,409	3,281	-	-	397,855
Write-offs	-	-	673,705	89,615	-	-	763,320
Impairment net of revaluation	(23,600,000)	-	-	-	-	-	(23,600,000)
Carrying amount at 31 December 2018	100,588,047	1,585,946	15,328,384	4,627,663	2,968,155	4,992,052	130,090,247

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

At 31 December 2018, the carrying amount of premises would have been MNT 93,626,137 thousand (2017: MNT 112,434,716 thousand) had the assets been carried at cost less depreciation.

Golomt Bank LLC

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

<i>In thousands of Mongolian Tugriks</i>	31 December 2018	31 December 2017
Premises at revalued amount in the statement of financial position	100,588,047	116,837,207
Revaluation reserve presented in equity	(6,855,242)	(3,961,909)
Realised revaluation reserve	(106,667)	(440,582)
Premises at cost less accumulated depreciation	93,626,138	112,434,716

23 Repossessed Collateral

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

Repossessed collateral represents real estate assets and financial assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. In case of repossessed collateral in the form of financial asset such as securities, Bank classifies them for IFRS measurement purposes as investments in equity securities and measures them at fair value. The assets were initially recognised at fair value less cost to sell when acquired.

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

Financial assets at fair value as of 31 December 2018 represent shares in Burkhan Del Alt LLC which the Bank has acquired in the process of settlement of overdue loans. Financial repossessed collaterals are recognised as investment in equity securities.

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.

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

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

Golomt Bank LLC

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24 Non-Current Assets Classified as Held for Sale

Non-current assets classified as held for sale were previously classified as repossessed collateral, acquired by the Bank in settlement of overdue loans. Management approved a plan to sell non-current assets on each transfer of asset. The Bank is actively marketing these assets and expects the sale to complete within 12 months.

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

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

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

25 Due to Other Banks

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

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

At 31 December 2018, short-term placement relates to current accounts from local and foreign banks, and deposits from local banks and foreign banks with interest rates ranging from 2.0% p.a. to 8.5% p.a. (2017: from 1.6% p.a. to 14.0% p.a.) and original maturities ranging from 90 to 255 days (2017: from 5 to 516 days).

Golomt Bank LLC

26 Customer Accounts

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

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

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

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

27 Other Borrowed Funds

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

Golomt Bank LLC

(a) Borrowed funds under project

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

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

Most of these funds are obtained for specific purposes (issuing loans at advantageous rates to target customers), defined by the lenders or the Government of Mongolia, and therefore they are obtained at interest rates which may be lower than rates at which the Bank could source the funds from other lenders. Interest rate on most of these borrowed funds ranges between 1.0% to 6% p.a., while interest rate on most of the loans issued from these sources range between 5% and 13% p.a. The management considered whether initial gain on recognition of these borrowings should be recognised and concluded that they meet definition of principal market and that no gains or losses should arise on initial recognition of related borrowings and loans to customers. The major programs include funding from the Development Bank of Mongolia on funding specific sectors or types of projects that are related to key priorities for development of Mongolian economy (e.g. achieving diversification of economy) by the Government of Mongolia. These programs are briefly outlined below.

Under Housing Mortgage Program, the Bank received funds during 2014, 2015 and 2016 from the Bank of Mongolia for a mortgage loan program implemented by the Government at an interest rate of 4% p.a. Newly issued loans or refinanced loans need to meet specific requirements (apartments with maximum area of 80 square meters, down payment of at least 30% apartment purchase price, good customer's credit history with respective bank and other Mongolian banks etc.) in order to qualify for this program.

As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates of 8% p.a. defined by the Bank of Mongolia i.e. the Bank has no discretionary rights in determining interest rates on issued loans. The Bank approves all loans disbursement or refinancing under 8% interest rate and bears the credit risk.

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

27 Other Borrowed Funds (Continued)

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

In 2016, the Bank participated in a program funded by the Development Bank of Mongolia on financing of hotels accommodating the representatives of 11th Asia-Europe Meeting. Under this program, the Bank obtained funding at interest rates of 4.5% p.a. and issued loans to qualified hotels at advantageous interest rate of 13% p.a. The Bank bears the credit risk. During 2018, programs have ended as per the agreement. The Bank has fully repaid all of outstanding amounts within these programs.

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

The Bank participates in the Government program of financing 888 projects to support export and substitute import products in Mongolia through Development Bank of Mongolia and commercial banks.

As a part of this arrangement, the Bank received funding at interest rates ranging from 3% p.a. to 5 % p.a. with maturity of 5 years and maximum interest rate on issued loans ranging from 7% p.a. to 9% p.a., which represent advantageous interest rates. The Bank has discretionary rights to determine interest rates within the defined threshold and bears credit risk in this arrangement.

In 2015, the Bank participated in Government program of financing cashmere industry through Development Bank of Mongolia and the interest rate of the funding is 6% p.a. with maturity of up to 3 years. The Bank can issue loans to the targeted customers with interest of 9% p.a. During 2018, programs have ended as the agreement. The Bank has fully repaid all of outstanding amounts within these programs.

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

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

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2018 in original currency	Principle balance as of 31 December 2018 in thousands of MNT
Government price stabilization program	Bank of Mongolia	Project loan of KFW bank	EUR	12/11/2012	12/25/2020	130,322	394,699
	Bank of Mongolia	Other borrowing under project	MNT	2/24/2015	5/9/2020	1,320,500,000	1,320,500
	Bank of Mongolia	Project to increase number of warehouses and to support development of intensive livestock	MNT	11/18/2013	12/31/2019	579,200	579
	Bank of Mongolia	Project loan of KFW bank	MNT	5/16/2013	12/27/2021	1,387,519,932	1,387,520
	Bank of Mongolia	Housing mortgage program	MNT	6/14/2013	12/31/2019	161,558,852,185	161,558,852
Projects financed by Development Bank of Mongolia	Development Bank of Mongolia	Project 888 to support export and substitute import	MNT	8/28/2014	10/29/2019	7,719,637,370	7,719,637
	Development Bank of Mongolia	MNCCI leather processing project	MNT	8/22/2014	6/25/2021	9,919,768,192	9,919,768
	Development Bank of Mongolia	Other borrowing under project	MNT	6/12/2015	3/5/2019	1,876,631,976	1,876,632
	Development Bank of Mongolia	Projects to support export and substitute import /up to 300 billion/	MNT	9/28/2015	11/27/2020	2,932,286,889	2,932,287
	Development Bank of Mongolia	Project on meat production	MNT	3/25/2016	2/28/2020	3,955,771,823	3,955,772
	Development Bank of Mongolia	Project on national cashmere factories	MNT	7/5/2018	12/15/2019	36,127,923,035	36,127,923
Joint projects of Mongolian government and Ja-pai In-ter-na-tional Coop-er-ation Agency	JICA	Borrowings under SME industry support fund	MNT	6/12/2009	6/1/2028	14,235,098,329	14,235,098
Other government projects Government	Government	Borrowings under SME industry support fund	MNT	6/12/2015	1/10/2021	2,923,663,023	2,923,663
	Government	Project 888 to support export and substitute import (more than 2 billion)	MNT	8/28/2014	12/30/2019	747,953,183	747,953
	Government	Student development program	MNT	11/30/2016	11/30/2026	128,509,263	128,509
	Government	Borrowings under Agriculture and Rural Development Project	MNT	2/10/2011	10/1/2025	18,911,044,795	18,911,045
	Government	Project to support employment	MNT	2/8/2017	10/10/2019	20,016,729,545	20,016,730
	Government	Borrowings under 40000 Housing Unit Development program	MNT	2/27/2008	1/19/2022	7,725,718	7,726
	Government	Other borrowing under project	USD	4/1/2010	5/1/2027	133,108	403,123

27 Other Borrowed Funds (Continued)

(b) Borrowings from foreign banks and financial institutions

Borrowings from other foreign bank represent loans obtained from foreign banks and financial institution in the amount of USD 100,000 thousand on 27 September 2018 with maturity of 60 months and USD 7,500 thousand on 26 September 2017 with maturity of 97 months. The borrowings of USD 100,000 thousand is collateralized by the Bank's current account at these banks (refer to Note 11).

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

The Bank obtained uncommitted revolving trade credit lines from international banks and financial institutions to fund its trade loans to customers. As of 31 December 2018 the Bank utilised MNT 159,380,055 thousand (31 December 2017: MNT 127,290,678 thousand) of related credit lines and issued loans for the same amount. International banks and financial institutions for the purpose of import financing of transactions of customers provide funding. The term of such funding is up to 3 years and cash flows from customers and payment to foreign banks are matching in terms of the timing of payment and principal amount. The Bank bears the credit risk in the case of non-payment by the customer. The increase in trade finance relates to ordinary course of business activities as well as new funding in JPY, USD and EUR from foreign banks.

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

28 REPO Arrangements

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

29 Other Liabilities

Other liabilities comprise the following:

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

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

The increase of the payables to employees and dividend payable relates to dividend declared to shareholder of the Bank and revised "Employee payroll and bonus" policy.

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

Golomt Bank LLC

30 Subordinated Debt

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

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

Subordinated loans as of the year ended 31 December 2018:

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

Subordinated loan from Golomt Financial Group (I)

The Bank received a USD 10 million 5-year subordinated loan from Credit Suisse AG, Singapore Branch in 2007. The loan was matured on 19 December 2012, at which date the loan was not repaid or converted into shares. On 31 December 2013, the Amendment Agreement was signed between Golomt Bank and Bodi International LLC, the main shareholder of the Bank at that time, on transfer of Credit Suisse loan to Bodi International LLC. Accordingly, the transfer certificate was signed by Credit Suisse AG, Singapore Branch, Bodi International LLC and Golomt Bank on 8 January 2014. Bodi International LLC, the main shareholder of the Bank purchased the loan from Credit Suisse on 27 December 2013. While the 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. On 30 April 2014, Stanhope Investments, Golomt Bank and Bodi International LLC signed a transfer certificate. Bodi International LLC, the main shareholder of the Bank, purchased the loan from Stanhope Investments. Following the transfer of the Bank's ownership to Golomt Financial Group, on 7 July 2014, the subordinated loan was transferred to Golomt Financial Group, a new main shareholder of the Bank.

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

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

None of the other subordinated debt agreements had financial or other covenants as of 31 December 2018 and 31 December 2017.

31 Share Capital

<i>In thousands of Mongolian Tugriks except for number of shares</i>	Number of outstanding shares	Ordinary shares	Share premium	Preference shares	Total
At 1 January 2017	26,367,593	26,367,593	46,583,557	25,778,900	98,730,050
At 31 December 2017	26,367,593	26,367,593	46,583,557	25,778,900	98,730,050
New shares issued	5,173,444	5,173,444	69,826,556	50,000,000	125,000,000
Conversion of the subordinated loans	780,820	780,820	11,219,180	-	12,000,000
At 31 December 2018	32,321,857	32,321,857	127,629,293	75,778,900	235,730,050

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

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

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

Ordinary shares

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

The following table shows issued shares during 2018:

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

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

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

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

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Preferred shares

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

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

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

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

32 Interest Income and Expense

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

The increase in the interest income from loans and advances to customers is due to increased amount of loans disbursed to customers in 2018. Further, interest income from cash and balances with central bank includes MNT 10,563,116 thousand (2017: MNT 11,403,260 thousand), which relates to interest income on placed mandatory reserves received from the Bank of Mongolia based on the resolution of the Bank of Mongolia applicable to all Mongolian banks, as the Bank maintained the required level of mandatory reserve during 2018.

Interest income includes approximately MNT 13,500,000 thousand (2017: MNT 8,700,000 thousand) of interest income, recognised on credit impaired loans to customers. Management believes that related amounts are fully recoverable, given that impaired loans and advances to customers have high collateral coverage and that non-recoverable amount of interest income is not recognised in the profit or loss account for 2018 and 2017 in accordance with IFRS requirements.

Golomt Bank LLC

Notes to the Financial Statements – 31 December 2018

33 Fee and Commission Income and Expense

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

34 Other Operating Income and Expenses

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

35 Administrative and Other Operating Expenses

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

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

36 Income Taxes

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

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

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

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

The Bank provides for income taxes on the basis of income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% for the first MNT 3 billion (2017: MNT 3 billion) of taxable income, and 25% (2017: 25%) on the excess of taxable income over MNT 3 billion (2017: MNT 3 billion) in accordance with Mongolian tax legislation.

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

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

(c) Deferred taxes analysed by type of temporary difference

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

36 Income Taxes (Continued)

(d) Deferred taxes analysed by type of temporary difference

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

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

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

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

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