ANNUAL REPORT 2015

GOLOMT BANK

Committed to and Investing in Excellence

Contents


MCMXCV

Vision

The Mongolian Global Bank.

Mission

We add value to people through best banking conducts.

Message from the Chairperson

The year 2015 marked the 20th anniversary of Golomt Bank's operations filled with innovations, success and our unwavering commitment to be the hearth of the development of our country. Since commencing its operations in 1995 with paid-in capital of MNT 436 million and only 4 employees, Golomt Bank has grown to MNT 3,6 trillion in total assets and 1,867 employees by the end 2015. We will continue to expand our growth story and work towards our vision of being a globally reputable bank.

Dear Shareholders, Valued Customers, Partners and Colleagues,

It is my utmost pleasure to greet you all on this historic occasion of the 20th anniversary of Golomt Bank and share with you the results of our successful operations over these years. We, at Golomt Bank, recognize that instilling right corporate culture and good corporate governance have been the pillars of our long term profitable operations and we will continue our commitment to the best international practices of corporate governance. Within this framework, in 2015 we have worked to strengthen our internal control policies and systems.

Although we have faced an unstable and challenging socio-economic environment globally and in Mongolia, Golomt Bank has performed successfully by setting prudent strategic goals for 2015.

Since the very nature of banking business lays in the trust of our customers, being reliable and prudent is one of most important factors for Golomt Bank. In the past year, we strengthened our position as the most prudent and reliable bank with our capital adequacy ratio exceeding the Central Bank requirements by 2 percent. Furthermore, we maintained high liquidity throughout the year, keeping the liquidity ratio at above 35 percent, and ending the year with a liquidity ratio of 38.1 percent, well above the Bank of Mongolia prudential liquidity ratio of 25 percent.

We have not only kept the trust of our local customers, but we have further expanded our correspondent banking relationships. As of 2015 we have a wide range of financial activities with more than 70 internationally renowned banks and financial organizations.

A step forward to improving good corporate governance

With the objective to further advance our corporate governance, we have successfully commenced a year-long project in cooperation with International Financial Corporation, through their Corporate Governance advisory services. We are confident that as result of this project our corporate governance will meet the most stringent international standards and further strengthen our bank operations. The Board has initiated and renewed the performance appraisal system for the Executive Management to establish remuneration a system directly linking remuneration with results. Moreover, the Board approved its self-assessment standards to achieve objective appraisal of board performances and its reporting to the shareholders.

To improve further our internal controls, which are the core of good governance, we focused greatly on the operations of the internal audit to develop risk-based process auditing, and to ensure its independence meets all international standards

Reliable, trustworthy bank

At times when Mongolia is facing challenging economic conditions, reducing demand for loans while risks for financial institutions are rising, one of the main objectives of our Board is to maintain robust risk management processes and its position of being a trustworthy and reliable bank. Hence, in addition to the financial goals we have set for the bank, we prioritized improving our risk management framework and internal controls. As a result we have improved policies and procedures of the bank that have strengthened our risk framework. For instance, the Board approved the bank's new Compliance policy and Credit risk rating policy. This assisted our staff to become risk managers at all levels which we believe will further improve our efficiency, minimize risks and increase profitability.

Vision for the future

The current fast-paced advancement of information and communication technology is not only changing the way people live, but affects the operations of organizations providing financial products and services bringing new challenges and opportunities. At Golomt Bank, we pride ourselves of consistently being the pioneers in the Mongolian financial sector in introducing technologically advanced products and services, walking hand-in-hand with global development trends.

Keeping this pace of innovations, we have successfully commenced major projects to set a customer centric business model that is based on the most advanced technological developments. I am sure these projects will not only make our operations more efficient, but reaffirm our position as Mongolia's best bank.

I would like to express my utmost gratitude to all our customers, partners and shareholders for the trust that they put in us and to all the members of the Golomt Bank family and fellow board members for their hard work and wish you all success and prosperity!

Sincerely,
Chairman of the Board of Directors

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Furthermore, we maintained high liquidity throughout the year, keeping the liquidity ratio at above 35 percent, and ending the year with a liquidity ratio of 38.1 percent, well above the Bank of Mongolia prudential liquidity ratio of 25 percent.

Message from the Management Team

Golomt Bank enhanced and strengthened its reputation as a reliable and transparent national bank in 2015. The Bank maintained the level of short and long-term deposits at MNT 2.1 trillion, and remains a sector leader with 23.3 per cent of the deposit market. We closed the year with a capital adequacy ratio (CAR) of 16.6 per cent, marking the third consecutive year that Golomt has exceeded the mandated Central Bank of Mongolia minimum ratio.

Chief Executive Officer of Golomt Bank

L. OYUN-ERDENE

President of Golomt Bank

U. GANZORIG

Dear Esteemed Clients and Partners,

I am delighted to present our Annual Report and financial statements, and to share our performance at year-end 2015 with our esteemed clients and business partners who have helped us build a 20-year successful track record.

We remain optimistic for long-term economic growth in Mongolia, though the pace of growth slowed dramatically in 2015. Mongolia has been negatively affected by the sustained dip in global commodities prices, the protracted slow-down in global growth, particularly in countries that are our foremost business and trade partners, and the sharp contraction of foreign direct investment into the country.

Nonetheless, Golomt Bank enhanced and strengthened its reputation as a reliable and transparent national bank in 2015. The Bank maintained the level of short and long-term deposits at MNT 2.1 trillion, and remains a sector leader with 23.3 per cent of the deposit market. We closed the year with a capital adequacy ratio (CAR) of 16.6 per cent, marking the third consecutive year that Golomt has exceeded the mandated Central Bank of Mongolia rate by at least 2 per cent. We at Golomt are committed to long-term sustainable development, and we are optimizing risk and return in an extremely challenging economic environment. We have bolstered our ability to withstand risk, and have established a risk reserve that is fully adequate under International Accounting Standard 39.

In 2015, we teamed-up with the International Finance Corporation and launched our project on good governance, under which we will further build and strengthen governance and transparency. We are also implementing our Compliance and Loan Risk Evaluation policies that have been approved by the Board of Directors, and which conform to internationally-recognized best practices.

As we celebrated our 20th Anniversary in 2015, we reached out to international banks and financial institutions, expanding cooperation and relationships which helped us secure US$ 100 million in debt finance that was important for our bank and also for the country.

At year-end, Golomt had close corporate relations with more than 70 international banks and financial institutions, which permitted us to better serve all of our customers, and mobilize US$ 55 million for on-lending over the course of the year.

Golomt Bank's Underwriting Division contributed to our year's results, raising MNT 500 billion in the first-ever fully-insured "Erchim Bond" that was sold and listed on the Mongolian Stock Exchange.

In addition to pioneering new investment tied savings rates products, we also launched new products, including our new "Hybrid Savings Product," which provides variable rate savings with interest rates changing as a function of raw materials prices. The product was created for our clients and customers who want to participate in equity, debt and currency trading.

We also began offering Custodian Banking services, which we created in conjunction with Nomura Research Institute – a world-leader in financial software. Consequently, Golomt now has the full capacity to provide specialized and complex custodial services, safeguarding customers' securities and other financial assets, authenticating asset ownership, clearing and settling securities transactions, collecting income and calculating taxes.

By launching the Tsambagarav Business Center in 2015, Golomt Bank established One-stop banking services for small and medium-sized enterprises in all districts, including: Bayanzurkh, Khan-Uul, Sukhbaatar, Chingeltei, Songino-Khairkhan in Ulaanbaatar. Golomt Bank surveyed over 1,500 SME business owners when it developed its comprehensive SME support policy, and as a result, we created a website dedicated exclusively to our SME clients: WWW.SME.GOLOMTBANK.COM. We complement this site ...EDU.GOLOMTBANK.COM which provides more general public education on household finance and budgeting.

Among all banks in Mongolia, Golomt Bank is well-known to be the first to have introduced a self-service banking unit replete with state-of-the-art banking services and technology. In 2015, we launched five self-service banking units, and we added 44 ATMs and Cash Deposit Machines (CDM).

Over the past year we rolled out a successful "Paperless Banking" campaign, which encourages on-line banking, and as a result the number of internet bank users increased 19 per cent, while transactions volume soared 107 per cent. We also added 29 per cent more card service merchants and 15 per cent more internet card service merchants. Our efforts to educate clients on the significance of credit card use yielded a 56 per cent increase in the number of credit card holders, which led to a 40 per cent jump in credit card transactions.

In order to promote long-term economic growth through increased individual saving, we launched a "National Savings Program", which registered a total of 23,500 savings account holders at year-end.

As we celebrated our 20th Anniversary in 2015, we reached out to international banks and financial institutions, expanding cooperation and relationships which helped us secure US$ 100 million in debt finance that was important for our bank and also for the country. At year-end, Golomt had close corporate relations with more than 70 international banks and financial institutions, which permitted us to better serve all of our customers, and mobilize US$ 55 million for on-lending over the course of the year.

Golomt Bank has originated a total of MNT 849 billion in mortgage loans to 17,954 borrowers, of which MNT 159 billion was issued to 2,355 borrowers in 2015. Golomt Bank is also a pro-active contributor to the Housing Mortgage Program 8+/-1% that was implemented by the Government of Mongolia.

In 2015, Golomt Bank joined forces with the Mongolia Bankers' Association and was recognized as the bank that best-applied the Mongolian Sustainable Finance Principles in all phases of its banking operations, reflecting its commitment to environmentally and socially-friendly, and transparent business. We hope to retain this title in 2016.

We are confident that in the future we will keep pace with global and world developments and that we will deliver the most advanced and innovative financing products and processes to our esteemed customers and clients.

We extend our sincere gratitude to all of our valued clients, partners, and colleagues who have contributed to the development and success of Golomt Bank.

Economic Overview

Though economic growth has slowed, Mongolia nevertheless recorded 2.3 percent real GDP growth in 2015. Nominal GDP advanced 4.2 percent to MNT 23.1 trillion.

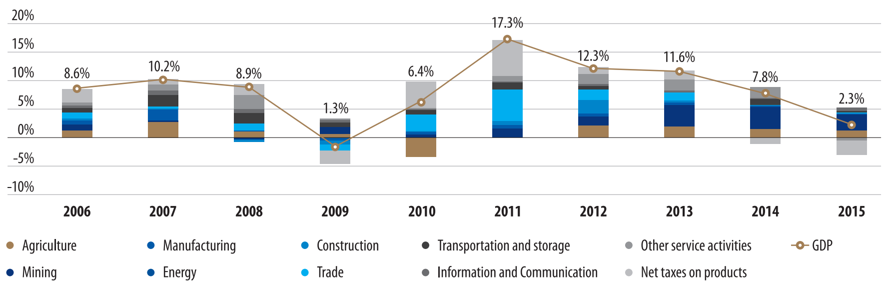
Economic Growth

Though Mongolia's economic growth has slowed from the double digit rates enjoyed four years ago, real GDP grew 2.3 percent in 2015, and nominal GDP rose 4.2 percent to MNT 23,1 trillion.

Gains in real GDP were fueled by growth in mining (13.0%), agriculture (10.7%), transport and storage (5.7%), and other service sectors (2.9%).

Growth was slowed, however, by a 3.6 percent decrease in wholesale and retail sales, a 1.4 percent dip in the construction sector, and a 21.1 percent drop in net taxes on products.

Real GDP growth (%)



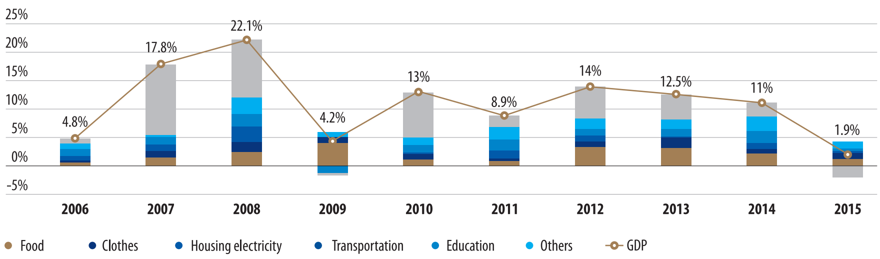
In 2015 the sustained declines in foreign direct investment (FDI) and exports were somewhat offset by modestly increased household spending and a positive trade balance that resulted largely from a marginally greater decrease in imports than in exports.

Inflation

Inflation, as measured by the consumer price index, rose 1.9 percent in 2015, down from 11 percent the prior year. The rate of increase was held in check by a 2.2 percent drop in food prices (notably meat and meat products), and a 1.3 percent increase in education services, 1.1 percent rise in the price of clothing, very low rates of increase (0.5%) in the prices of housing, water, fuel and electricity, and a 1.2 percent growth in the price of other goods and services.

Moderate inflation reflects generally weak aggregate demand resulting from slack household spending, and an increase in the supply of meat in anticipation of a harsh winter that drove prices lower.

Breakdown of inflation (%)



Foreign Trade

Total foreign trade amounted to US$ 8,5 billion in 2015, down 22.0 percent from US$10,9 in 2014 (According to the World Bank, aggregate trade was $10.9bn in 2014, meaning a 22% drop).

Exports fell 19.1 percent to US$ 4,7 billion, against imports which fell 27.5 percent to US$ 3,8 billion, resulting in a trade surplus of US$ 872,3 million, up 35.7 percent from 2014.

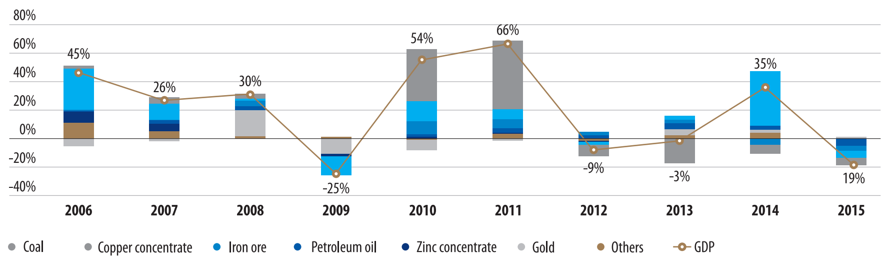
Exports were dominated by natural resources, minerals and petroleum (87%), which were followed distantly by wool and cashmere products (5%). Though the volume of some minerals and metals exports increased, slack global commodity prices caused the value of coal, copper concentrate and iron ore exports to fall by double digits. Coal fell 35 percent, copper concentrates 11 percent, and iron ore 49 percent. Non-monetary gold bucked the trend, and registered a 4 percent increase in export value. Crude oil exports, however, were also down 39 percent.

Imports were comprised of consumer goods (29%), investment products (38%) and petroleum products (19%). The drop in imports was driven by a 5 percent decline in consumer goods, a 12 percent fall in investment products (mining and construction equipment, and construction materials), and a 5 percent dip in petroleum products which resulted from the decline in world oil prices.

Exports fell 19.1 percent to USD 4,7 billion, against imports which fell 27.5 percent to USD 3,8 billion, resulting in a trade surplus of USD 872,3 million, up 35.7 percent from 2014.

The narrow money supply (M1) consisting of cash in circulation and short-term demand deposits fell in 2015, affirming the economic slowdown.

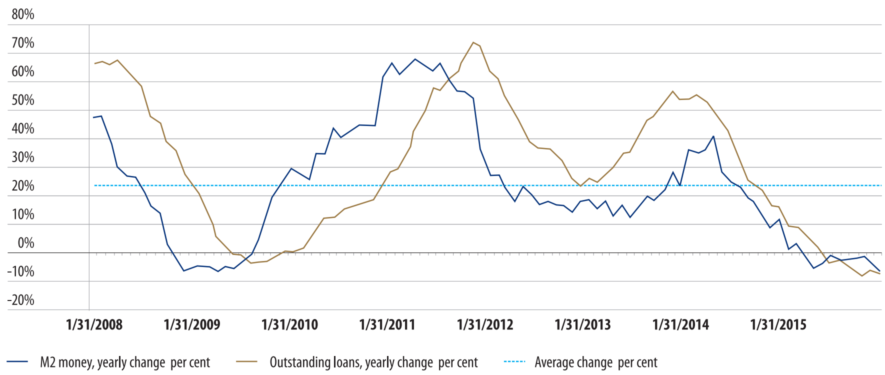
Breakdown of total export growth



Monetary and Financial Indicators

The broad money supply (M2) contracted MNT 600 billion in 2015, down 5.5 percent to MNT 10 trillion.

Finance sector cycle



Mongolia's money supply (M2) contracted 5.5 percent in 2015 after growing 12.5 percent in 2014 and 24.2 percent in 2013. The dip in 2015 resulted from a 1.1 percent drop in M1, and decreases in short and longer-term foreign currency deposits which fell 4.3 percent and 0.2 percent respectively.

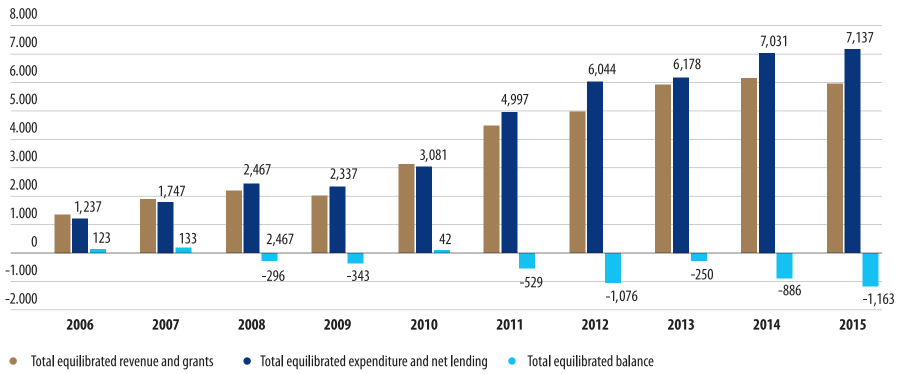
The fall in M1 consisting of the most liquid assets, cash and short-term demand deposits, is evidence of the economic slowdown.

At year-end 2015, total loans tallied MNT 11,7 trillion, down MNT 807 billion from MNT 12,5 trillion in 2014. Loans outstanding fell because of a 1.7 percent drop in corporate loans, and 0.7 percent decreases in retail loans and loans to other sectors. The 6.5 percent dip in 2015 lending contrasts with 12.5 percent growth in 2014.

State Budget

In 2015 budget revenues and grants fell 2.8 percent to MNT 5,9 trillion, while expenditures rose 1.7 percent to MNT 7,1 trillion. The MNT 1,2 trillion budget deficit represented 5 percent of GDP.

General government budget, in MNT billion



The shortfall in budget revenues resulted principally from reduced import taxes levied on products and on diesel fuel, and a dip in royalties and in proceeds from the privatization of state-owned assets.

Budget expenditures of MNT 7,1 trillion came in slightly below the forecasted amount of MNT 7,2 trillion because spending on education, energy, agriculture and transport came in below forecasts, despite spending on general public services that exceeded forecasts.

To finance the deficit, the government issued long and short-term foreign currency denominated bonds (58%) and borrowed from foreign lenders (32%). The balance was financed with local currency debt.

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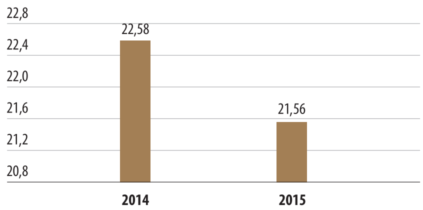
Banking Sector Overview

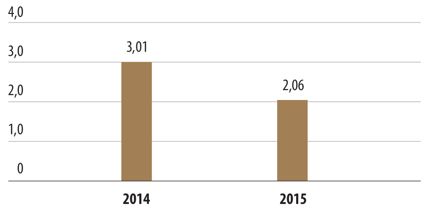
The capital reserves required by the Central Bank of Mongolia fell MNT 940 billion, and ended 2015 at MNT 2,06 trillion

Total commercial bank assets amounted to MNT 21,56 trillion at year-end 2015, a decrease of MNT 1,03 trillion from the prior year.

Bank Assets (MNT trillion)

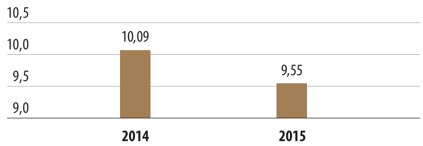


Bank Reserves (MNT trillion)



Capital reserves required by the Central Bank of Mongolia fell MNT 940 million over the year, ending at MNT 2,06 trillion.

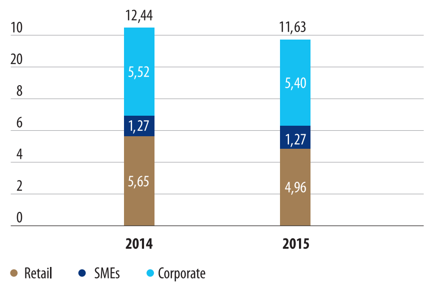
Bank Deposits (MNT trillion)



At year-end, short and long-term deposits held by corporate and retail clients was MNT 9,55 trillion, down MNT 540 billion from 2014, with virtually all of the decline coming from the withdrawal of short-term deposits.

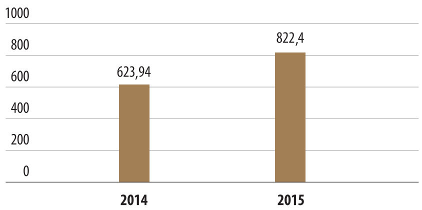
Loans outstanding also fell, and at year-end totaled MNT 11,7 trillion, down MNT 800 billion year-on-year. The portfolio remained dominated by loans to mining, manufacturing, construction, trade and real estate representing 65.2 percent of the total.

Structure of Outstanding Loans

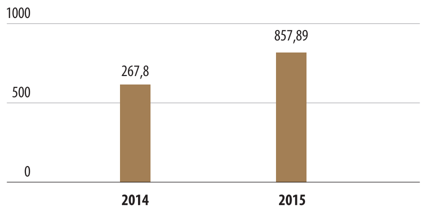


Non-performing loans (NPLs) increased significantly in 2015, adding MNT 196,5 billion to reach MNT 822,4 billion. Past due loans increased even more sharply, rising MNT 590 billion to MNT 857,9 billion. NPLs and past due loans rose in 2015 because of weak global and domestic economies which suppressed exports, revenues, and local purchasing power.

NPLs (MNT billion)



Past Due Loans (MNT billion)

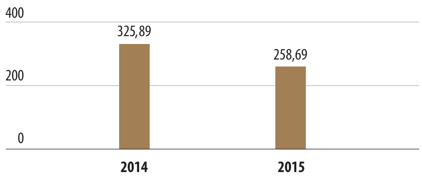


The sharp increase in past due loans resulted largely from the mining sector (43%), followed by manufacturing (24%) and the trades sector (14%).

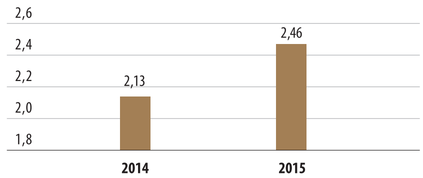
Despite the fall in banks' net profits, equity increased MNT 330 billion and reached MNT 2,46 trillion.

The mining sector was particularly hard-hit by slackening demand for minerals and metals which caused commodity prices to fall globally. Loan service was further impaired by depreciation of the local currency which also affected corporate and retail borrowers' ability to service foreign currency denominated loans.

Net Profits (MNT billion)



Equity (MNT trillion)



Net profits fell in 2015 as a result of the increase in NPLs and past due loans which forced banks to increase loan loss reserves, which hit the bottomline.

Banks' equity nonetheless increased MNT 330 billion to MNT 2,46 trillion, which mitigates future risk associated with slack global and local economic conditions.

The lessened demand for mining products and the plunge in the global commodity prices have significantly hurt the mining sector, thereby increasing the sector-wide NPL ratio of mining related loans. Moreover, the sustained deprivation of foreign currencies continues to depreciate MNT and the not-so-strong global economy growth is only causing a slow down in business activities and weakening the purchasing power of the general public. As a result of operating under this very unfavorable economic environment, the banks are suffering from increased NPLs and decreased net profit.

Increased equities can be viewed as one of the measures that the banks are taking to protect themselves from the looming risks under the current recession-like economic period.

Financial Review

Golomt's equity increased by MNT 34 billion to MNT 428 billion in 2015, a 9.9 percent hike over the prior year

FINANCIAL RESULTS OF 2015

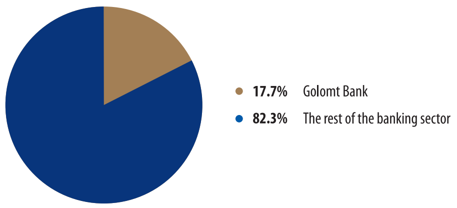
Internal and external shocks and persistently shallow foreign direct investment experienced in 2015 caused money supply to contract and the sale of goods and services to drop. The banking sector was impacted directly by this downturn, which is reflected in deteriorating loan quality as a result of borrowers' increasing inability to service their obligations. This combination of circumstances could affect some banks' ability to source and secure funding which could increase the risk of default.

Despite the economic and banking sector challenges that exist in Mongolia, Golomt Bank finished 2015 strongly, and in full compliance with all of the Central Bank's statutory requirements, sustaining all key risk ratios and indicators above the minimum levels.

TOTAL ASSETS

Golomt's assets at year-end totaled MNT 3,8 trillion, and representing 17.7 percent of aggregate banking sector assets.

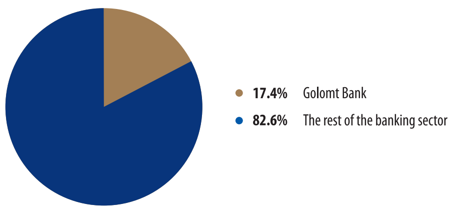
Golomt's Share of Banking Sector Assets



EQUITY

In 2015, Golomt's equity increased by MNT 34 billion to MNT 428 billion, a 9.9 percent hike over the prior year.

Golomt's Share of Banking Sector Equity

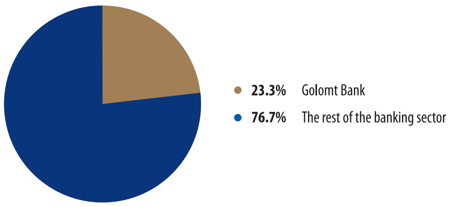


CURRENT ACCOUNTS AND TERM DEPOSITS

Current accounts and term deposits totaled MNT 2,1 trillion at year-end 2015, unchanged from the prior year. Golomt Bank remains the sector leader in terms of deposit-taking with a 23.3 percent market share.

Golomt closed 2015 with a capital asset ratio (CAR) of 16.6 percent, marking the third consecutive year that the bank finished the year with a ratio at least two percent over the Central Bank requirements.

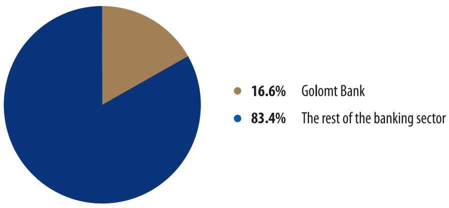
Golomt's Share of Deposits



NET LOANS

At year-end 2015 Golomt Bank's loan portfolio totaled MNT 2,0 trillion.

Golomt's Share of Banking Sector Loans

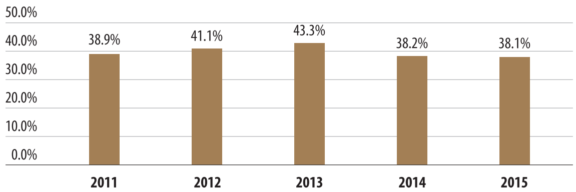


The Bank approved and disbursed MNT 159 billion in mortgage loans and sold a total of MNT 486 billion worth of 8+/-1% mortgage loans to the Mongolian Mortgage Corporation HFG LLC.

REGULATORY REQUIREMENTS

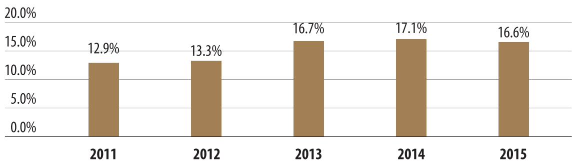
The Bank operated in full compliance with all Central Bank of Mongolia and other regulatory requirements in 2015.

Liquidity ratio > 25%



Golomt finished 2015 with a capital asset ratio (CAR) of 16.6 percent, marking the third consecutive year that the bank exceeded Central Bank requirements by at least 2 percent.

Capital adequacy ratio > 14%
(The Central Bank of Mongolia increased the CAR requirement from 13% to 14% in 2013)



SUMMARY OF FINANCIAL RESULTS AND RATIOS

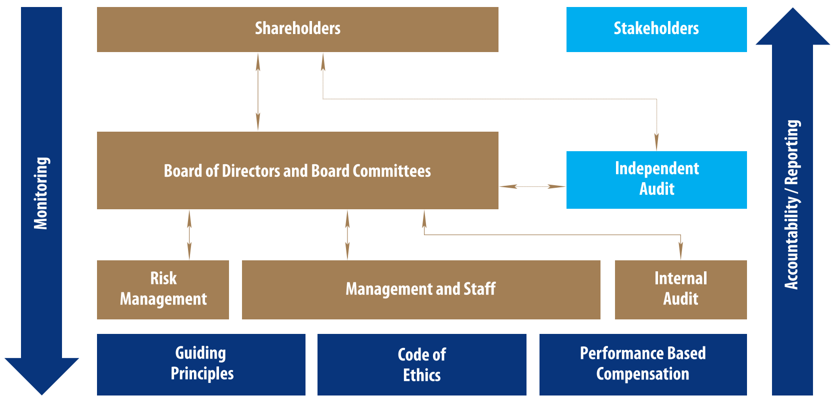
Indicators (in MNT million)	2011	2012	2013	2014	2015
Balance sheet indicators (in MNT million)					
Total assets	2,134,683	2,526,945	3,749,806	4,053,153	3,804,842
Total current accounts and deposits	1,839,324	2,056,728	2,161,779	2,232,270	2,079,801
Borrowed funds	63,429	112,840	1,032,319	1,011,499	1,014,935
Net loans	1,249,341	1,427,852	2,199,228	2,461,920	2,013,611
Total equity	187,959	221,501	329,740	393,736	428,181
Income statement indicators (in MNT million)					
Interest revenue	165,165	200,245	290,945	338,366	314,830
Interest expenses	(116,240)	(143,127)	(184,701)	(209,312)	(213,295)
Net interest revenue	48,925	57,118	106,245	129,054	101,534
Net non-interest revenue	27,163	31,932	59,774	36,197	56,258
Operating profit	76,088	89,050	166,019	165,251	157,792
Operating expenses	(32,515)	(45,419)	(67,116)	(73,068)	(75,362)
Allowance for credit loss	(6,324)	(10,790)	(27,940)	(27,900)	(49,703)
Pre-tax income	37,249	32,841	70,963	64,283	32,726
Tax expenses	(9,022)	(6,694)	(14,106)	(14,455)	(6,742)
After-tax income	28,226	26,146	56,857	49,828	25,985
Financial structure ratios					
(Current accounts + deposits) / Total assets (%)	86.2%	81.4%	57.7%	55.1%	54.7%
Equity (Tier 1) / Total assets (%)	6.5%	7.4%	6.6%	7.3%	9.4%
Net loans / Total assets (%)	58.5%	56.5%	58.6%	60.7%	52.9%
Gearing ratio (Total liabilities / Total assets)	10.4	10.4	10.4	9.3	7.9
Profitability ratios					
Return on average assets (%)	1.6%	1.2%	1.9%	1.4%	0.7%
Return on average equity (%)	24.6%	15.1%	26.8%	19.1%	8.7%
Net interest margin (%)	3.6%	3.5%	4.6%	4.5%	4.2%
Expenses and revenue ratio (%)	41.3%	50.3%	40.7%	46.1%	47.8%
Prudential ratios					
Capital adequacy ratio > 14% (Central Bank of Mongolia increased CAR requirement from 13% to 14% in 2013)	12.9%	13.3%	16.7%	17.1%	16.6%
Single largest borrower exposure < 20%	19.8%	19.0%	15.9%	15.8%	18.2%
Related party loan to equity < 5%	3.4%	3.5%	3.0%	4.6%	3.9%
Total related party loans to equity < 20%	12.7%	9.5%	8.2%	15.8%	17.0%
Liquidity ratio > 25%	38.9%	41.1%	43.3%	38.2%	38.1%
Fixed assets ratio < 8%	1.5%	1.5%	1.6%	2.6%	4.7%

This financial statement has been prepared in accordance with International Financial Reporting Standards.

Corporate Governance

We at Golomt Bank strongly believe that the key to long-term sustainable growth is our governance culture. Our Board of Directors places great importance on governance, and seeks to inspire an environment in which each and every member of Golomt's management structure practices responsible management and operates within an audit framework.

Governance Structure



Established in 1995 as a 100% Mongolian invested entity, Golomt Bank has grown over the past 20 years into a financial institution that attracts investment from internationally-recognized sources.

Shareholders

• Golomt Financial Group LLC	83.76%
• Swiss-MO Investment AG	9.98%
• Trafigura Beheer B.V.	4.93%
• Shareholders under ESOP	1.33%

The parent company of Golomt Bank, Golomt Financial Group LLC, is a major financial group that unites companies specializing in investments, banking, insurance and brokerage under one umbrella. Golomt Financial Group employs over 1,900 employers. The Group takes pride in having been recognized as a Global Growth Company by the World Economic Forum, joining 400 of the world's top enterprises from 65 countries.

Among the shareholders of Golomt Bank is Swiss-MO Investment AG, an investment fund based in the Swiss Canton of Grisons, that operates globally to acquire, manage and sell shares in enterprises of all kinds, and which provides services and advice to others.

Trafigura Beheer B.V. was established in 1993 and is now the world's third largest oil trader and the second largest independent trader of non-ferrous metals concentrates.

Golomt Bank introduced its Employee Stock Ownership Program (ESOP) in order to recruit and retain employees for the long-term. As a result, more than 150 employees have been granted stock options, and a non-governmental organization, Khuvitai Golomt, was established. The principal idea underlying the ESOP is to align employee interests and incentives with those of the shareholders, and to inspire a sense of employee ownership. Though shareholders under the ESOP hold only a 1.33 percent stake in Golomt Bank, these shareholders have collectively been invited to nominate one member to the Board of Directors.

Golomt Bank also issued preffered shares equal to USD 15 million, which is wholly owned by Mr. Zorigt Munkhchuluun.

One third of Golomt Bank's Board of Directors are independent members, including the representative of ESOP shareholders, which ensures a healthy, open-minded and un-biased decision-making.

In 2015, the Board of Directors met six times and resolved a total of 31 issues or matters. Average attendance was 91.7%.

The Board of Directors

Chairperson of the Board
Ms. **Munkhtsetseg Ch**

Member
Mr. **U.E. Schwarzenbach**

Member
Mr. **Temuun Z**

Member
Mr. **Munkhtur D**

Independent member
Mr. **Unenbat J**

Independent member
Mr. **Antonio L. Abello**

Golomt Bank joined the Institute of Internal Auditors (IIA) and the Information Systems Audit and Control Association (ISACA).

MEASURES TAKEN TO IMPROVE CORPORATE GOVERNANCE

Golomt Bank has always been fully aware and appreciative of the importance of adopting international best practices to strengthen its own corporate governance and company culture. We have strived to change for the better. We launched a one-year corporate governance enhancement project led by the International Finance Corporation. Our objective is to have internationally recognized corporate governance policies and practices fully in place at the conclusion of the project which will enable the Bank to operate more profitably and to grow.

In our effort to improve internal controls, the Board has approved a Code of Compliance, which seeks to disseminate and inspire a compliance culture to be adopted by every employee who fully acknowledges their responsibility and accountability to doublecheck the content and quality of each and every task that is assigned to them. Instilling such a compliance culture would help the Bank mitigate risks and prevent misconduct. It would also move us towards becoming a financial institution that is fully compliant with all relevant laws and regulations, and which fully adheres to the procedures and codes of ethics set forth in the governance codex for banks.

Operational independence and oversight is integral to a sound corporate governance structure. As such, the Internal Audit Committee reports directly to the Board in order to improve Bank operations and value.

In the reporting period, the Internal Audit Committee adopted risk-based auditing methodologies in accordance with international standards, and introduced systems to assess products and services, and monitor processes, in addition to its routine functions of auditing and overseeing the Bank's divisions and departments. The Internal Audit Committee assesses risk semi-annually according to the 6+6 principle, and then revises its audit plans accordingly.

Golomt Bank has become a member of the Institute of Internal Auditors (IIA) and the Information Systems Audit and Control Association (ISACA).

Board Committees

The Audit Committee oversees and provides guidance to the Internal Audit Committee, and reviews its independent audit reports. The Audit Committee also manages the relationship between the Bank and its external auditors.

The Audit Committee consists of five members, two of whom are independent. It held a total of thirteen regular and irregular meetings in 2015, and addressed 84 matters, and issued corresponding resolutions or guidance.

The Risk Management Committee is responsible for assessing the maximum level of risk that the Bank can bear, and for submitting its findings to the Board for approval. The Committee is guided by a risk exposure ceiling, which the Executive Management team monitors closely in evaluating whether risk and return ratios are properly managed. Every quarter the Committee assesses the need to revise the risk exposure ceiling in response to changes in internal and external factors, and then provides guidance on risk-related strategy.

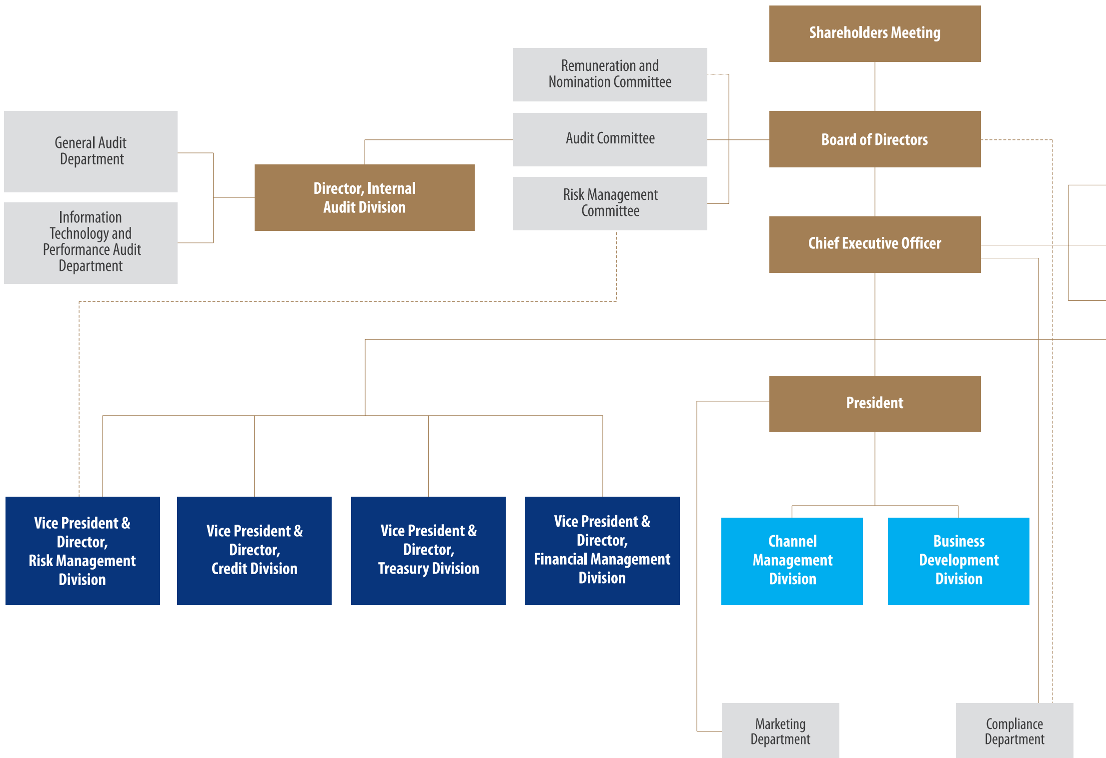
In 2015 the Risk Management Committee registered significant achievement, including the quarterly assessment of the risk exposure ceiling, which yielded proposed changes that were approved by the Board. The Committee also secured approval for the Code of Compliance and Credit Risk Assessment Policy. It held a total of seven meetings and addressed 34 matters, and issued corresponding resolutions or guidance.

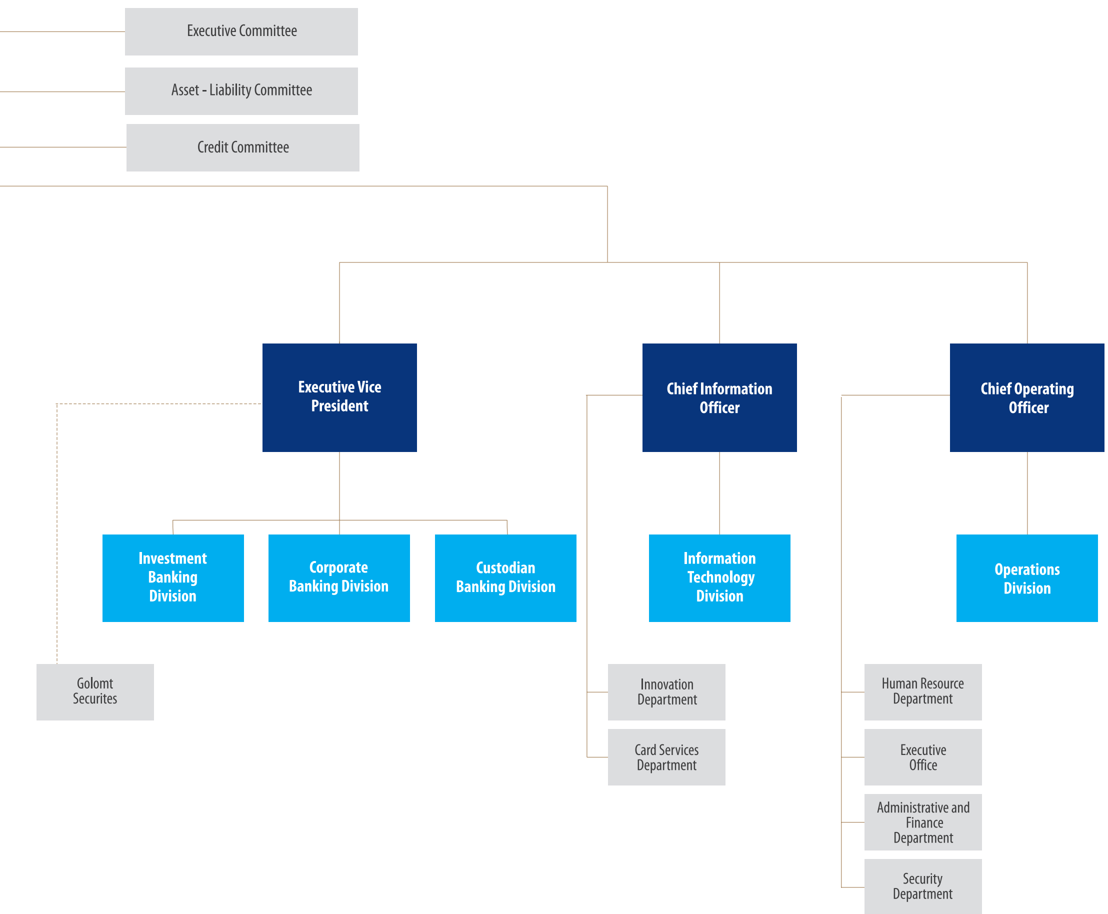
The Remuneration and Nomination Committee is responsible for nominating and appointing Board members and C-Level upper-management executives. The Committee also conceives the Bank's Human Resources Policies, including the compensation system. In 2015 the Committee sought to improve the Bank's performance-based compensation system by amending the Human Resources Policy, which notably included securing Board approval for mechanisms to assess Management and Board performance. The committee met six times in 2015, and discussed a total of 11 issues or matters, and issued relevant resolutions and recommendations.

2015 marked the first year of our new organizational structure that was approved in 2014.

Organizational Structure

ORGANIZATIONAL CHART OF GOLOMT BANK




Executive Committee
Asset - Liability Committee
Credit Committee
Executive Vice President
Chief Information Officer
Chief Operating Officer
Investment Banking Division
Corporate Banking Division
Custodian Banking Division
Information Technology Division
Operations Division
Golomt Securites
Innovation Department
Card Services Department
Human Resource Department
Executive Office
Administrative and Finance Department
Security Department

Management Team

President
Ganzorig U

Executive Vice President
Erdembileg O

VP & Director, Financial Management Division
Chimegmunkh M

VP & Director, Credit Division
Nyamsuren T

VP & Director, Treasury Division
Munkhbaatar B

Chief Information Officer
Tserendavaa N

Chief Operating Officer
Enkhtuya B

VP & Director, Business Development Division
Sugar D

Director, Internal Audit Division
Batsuren R

Director, Corporate Banking Division
Badral D

Director, Channel Management Division
Khosjargal U

Director, Investment Banking Division
Khishigjargal J

Director, Information Technology Division
Erdenebayar B

Director, Operations Division
Purevbat Yo

Director, Custodian Banking Division
Zorig G

Business Overview

Golomt Bank has maintained its leading market position delivering products and services targeted at SME clients, and implemented projects with the Government of Mongolia and international organizations to support SMEs.

Retail banking

SMALL AND MEDIUM SIZED ENTERPRISES

Since 2012, Golomt Bank has provided an array of SME-focused banking and financial services, including advisory services, through our one-stop business centers that are strategically located across Ulaanbaatar, the capital city, extending the Bank's reach to its clients. The Bank is recruiting and training more professionals to better serve SME retail banking clients.

With the addition of the Songino-Khairkhan Business Center, Golomt Bank now serves the needs of SMEs through one-stop business centers in Bayanzurkh, Khan-Uul, Sukhbaatar, Chingeltei and Songino-Khairkhan districts.

Small and Medium Enterprises Department

Tuv Business Center | Credit Center Business Center | Sansar Business Center | Khan-Uul Business Center + Songino-Khairkhan Business Center

95 Branches and Sub-Branches

Business Loans MNT 156 billion · 1,300 borrowers

Project Loans MNT 99,3 billion · 280 borrowers

Loan Guarantee Fund MNT 8,6 billion · 102 borrowers

In order to conceive and implement a comprehensive policy to support and promote SME development, Golomt Bank conducted a market survey of over 1,500 SME business owners, and as a result introduced the work streams below:

Introduced a website dedicated exclusively to SME Clients – WWW.SME.GOLOMTBANK.COM

Finance | Business Planning | Risk | Human Resources | Marketing | Sales | Legal Environment

Industrialists prepared 93 models and 130 content within the above 7 main topics that can be used directly.

Organized a management forum for the first time in Mongolia involving over 600 top business enterprises that were provided business training and advice.

Darkhan Province Business Enterprises Forum | Orkhon Province Business Enterprises Forum | Khovd Province Business Enterprises Forum

Introduced a new package of brochures addressing the specific needs of SME clients.
Introduced a product to meet SME clients' short-term financing needs.

Quick loans | Overdrafts

Golomt Bank has maintained its leading market position delivering products and services targeted at SME clients, and implemented projects with the Government of Mongolia and international organizations to support SMEs.

The MNT 300 billion program loan to support local production, boost exports and replace imports

Project to build a block factory to manufacture 1,232,000 numbers of block, 88,000 м2 sidewalk bricks PER YEAR

Autogas charged 30 plants; project to build a factory to fill butane gas cartridges for domestic use

Project to manufacture 12,000-25,000 vacuum-packaged food products PER YEAR

Project to finance the technology to make 250-300 diapers PER MINUTE

Soft loan for leather processing companies

23 projects financed; MNT 23,6 billion disbursed in loans + Over 300 new jobs created

A factory to produce and export 600.000-800.000 sheepskins, 600.000 rawhide, 1.000.000 leather PER YEAR

A factory to make 250-500 bags PER MONTH

shoe factory 2,550+3,000 shoes PER MONTH; 10-15 thousand shoes to export PER YEAR

Next tranche of ADB loans for job creation with new terms and conditions

16 projects financed; MNT 3,42 billion worth (on value) of bags per month + Over 165 new jobs created

JICA two-step loan project for SME development and environmental protection

14 projects financed; MNT 5,5 billion worth (on value) of bags per month + Over 150 new jobs created

Named the bank that funded the most number of environmental protection projects

OTHER PROJECTS

- Project loans to support private sector SMEs with funding from the German KFW bank
- MNT 70 billion in SME loans
- Working capital financing for cashmere businesses
- Hotel loans in preparation for ASEM

Golomt Bank has provided financial assistance to over 25,739 households, helping them to become homeowners

HYBRID SAVINGS

Golomt Bank was the first to bring hybrid products featuring both investment and savings features to the Mongolian banking and finance sector.

On behalf of clients, the Bank trades options and futures for commodities such as oil, gold and copper. All gains resulting from price fluctuations are transferred to the clients' hybrid savings account. The Bank also safeguards clients from exposure to risk and losses that could otherwise result if clients engaged in the capital markets themselves. Investment professionals educate clients and provide them with economic and market intelligence.

NATIONAL SAVINGS PROGRAM - SAVINGS PRODUCT

Golomt Bank introduced a one-of-a-kind savings product under the tag line: "Let's make saving a habit," in order to promote individual saving, which will also contribute to the country's long-term economic growth.

The product seeks to broadly educate households on the benefits of regular saving, and it requires a monthly deposit. Clients who meet this basic requirement will receive a bonus on top of their interest income. The Bank ran a national campaign to improve financial literacy among the general public that involved more than 53,000 employees from 1,081 entities. The campaign provided basic financial management training and promoted the benefits of saving. Within two months of its introduction, the new savings product attracted 23,500 clients. If one in every three Mongolian households adopts the habit of saving MNT 50,000 every month, then after only ten years each will have more than MNT 13 million, equivalent to MNT 3,3 trillion on a national scale.

THE GREAT JOURNEY OF HAVING ONE'S OWN HOME

Golomt Bank launched its long-term mortgage loan program in 2002 under the tag line: "Committed to and investing in Excellence." Since then, Golomt Bank has helped 25,739 households become homeowners.

As of 2015, the Bank had provided financial assistance to 25,739 households helping them become homeowners

2013	6,085 households bought new apartments	Total 331,8 billion disbursed in new mortgage loans
2014	6,344 households bought new apartments	Total 325,7 billion disbursed in new mortgage loans
2015	2,355 households bought new apartments	Total 159,1 billion disbursed in new mortgage loans

In 2015, Golomt Bank disbursed MNT 159 billion in mortgage loans to 2,355 households, which led to an 11 percent increase in the mortgage loan portfolio and pushed the total number of mortgage loan holders to 17,954.

8+/-1 INTEREST MORTGAGE LOAN PROGRAM

Golomt Bank alone originated 28 percent of the country's housing finance, and sold MNT 486 billion in mortgage-backed securities to the Mongolian Mortgage Corporation HFG LLC in a total of four transactions.

In partnership with industry professionals, Golomt Bank also introduced multiple real estate advisory services for its retail clients.

In 2015 Golomt Bank provided information and recommendations on the Ulaanbaatar housing market, investing in real estate, trends in construction and development, the rental market, and regionalization. Additional insight was provided on:

- Real estate market studies
- Real estate purchase advice
- Investment advice
- Legal advice
- Services related to bank financing

Golomt Bank introduced a one-of-a-kind savings product under the tag line: "Let's make saving a habit," in order to promote individual saving, which will also contribute to the country's long-term economic growth.

CARD SERVICES

Golomt Bank re-affirmed its market-leading position in Mongolia's card services market in 2015.

With the introduction of the world renowned, highly prestigious, American Express cards to the local market, our clients are now able to enjoy a variety of benefits including discounts form internationally recognized chains, such as Selects and Taste. In addition to discounts, clients can also accumulate points on each transaction that they make and pay with coupons at select vendors.

Our efforts to educate our clients on the benefits of credit card use, and to promote regular usage resulted in a 56 percent jump in the number of credit card-holders which caused transactions volume to soar 40 percent.

INSURANCE BROKERAGE SERVICES

At Golomt Bank, our core objective is to serve each and every one of our clients' financial needs. To do this, the Bank expanded its presence in the insurance market in 2015, and established a stand-alone unit that is specialized in providing insurance brokerage services.

Golomt Bank established the Channel Management Division in 2015 in order to tailor products and services that address clients' specific needs.

Last year, we enrolled more than 150 employees in comprehensive insurance training, and provided advice through our 40 branches and sub-branches to clients on the most appropriate insurance products, to reduce and prevent potential risks.

Through this line of insurance services, our retail customers gained access to a variety of insurance products on more favorable terms and conditions than would have otherwise been available.

We are looking to provide the same array of insurance services to corporate clients, and we will seek to educate businesses and companies on the significance of safeguarding against risk and loss through the purchase of insurance products.

CHANNEL MANAGEMENT

Golomt Bank established the Channel Management Division in 2015 in order to tailor products and services that address clients' specific needs.

Establishing the Channel Management Division has permitted the bank to launch a number of significant work-streams that promote greater customer satisfaction, long-term customer loyalty, and more efficient sales through optimal channels. Most importantly, the Channel Management Division showcases Golomt Bank's commitment to client-focused service and mutually beneficial partnership.

Regardless of the time or place, our clients can now access the highest levels of service through the channels that are closest, least expensive, and most convenient for them.

The development of multi-channel banking, that is integrated with CRM systems, was the first step in introducing omni-channel banking. Simply put: in addition to the self-service units/ATMs, internet banking, and customer phone support at 1800-1646, many other channels are now available such as: social networks, online support (live chat), email support, fax, text messaging, video and kiosk support that significantly expand clients' access to our services.

Every day, we direct our efforts, activities and initiatives to enhancing the quality of customer service, and to strengthening the capacity of our employees to deliver remarkable results and customer satisfaction. We surveyed staff capacity in a process dubbed "Mystery Shopping," and the findings were very positive. We found that staffs are increasingly able to listen to and understand clients each and every time.

CUSTOMER SERVICE

In 2015 we introduced systems making it possible for overseas clients to secure internet banking access to their accounts and personal data, such as customer IDs.

We significantly improved our call management system, thanks to the introduction of infrastructure such as call center logging software, a CRM system, customer call recording, and the expansion of a VIP call line.

We developed and integrated a CRM incident module with the Finacle Core Banking Solution that was adopted in 2014. This led to a 70.7 percent decrease in customer complaints year-on-year.

ACTIONS TAKEN TO IMPROVE VIP SERVICE QUALITY

In 2015, Golomt Bank took its private banking services to the next level by introducing improvements in our service environment, and in our products and services.

We have gone to great lengths to ensure that our private banking clients enjoy VIP treatment and care from our bankers who have been trained to serve with the highest levels of ethics, and to deliver the highest quality service in a comfortable and luxurious environment.

We introduced an employee attitude-based efficiency-boosting program called "Bring the Change Today," through which our staff are being trained to uphold the highest customer service standards and deliver the highest quality products and services at all times.

In conjunction with this campaign, we also implemented our Productivity Improvement Program in partnership with a professional consultancy firm that is helping to inspire a service-oriented mindset, promote greater respect towards clients, better cater to the clients' needs so as to cultivate long-lasting relationships, and boost overall productivity.

BRANCHES

Opening Golomt Bank's Khovd branch in December 2015 expanded our presence in western Mongolia. The branch adheres to international standards and provides a full range of banking and financial products and services.

The Tsambagarav Branch opened its doors to clients in the Songino Khairkhan district, one of the busiest in Ulaanbaatar, in July 2015.

In our efforts to get closer to our clients, in August 2015 we opened a branch in the Kharkhorin Department Store, one of the largest in Ulaanbaatar, to serve businesses, renters and clients.

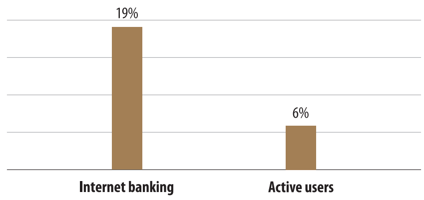
Opening Golomt Bank's Khovd branch in December 2015 expanded our presence in western Mongolia. The branch adheres to international standards and provides a full range of banking and financial products and services.

Golomt Bank is the first Mongolian commercial bank to introduce device-based technologically innovative Self-Service Banking Centers.

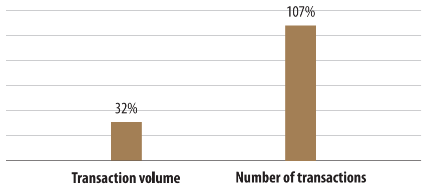
CYBER BANKING CAMPAIGN

In an effort to promote internet banking, Golomt Bank ran a successful "Paperless Cyber Banking Campaign." The goal of the campaign was to increase the volume of transactions executed electronically, and the preliminary results are below:

Number of Users (growth %)



Internet Transaction Volume (growth %)

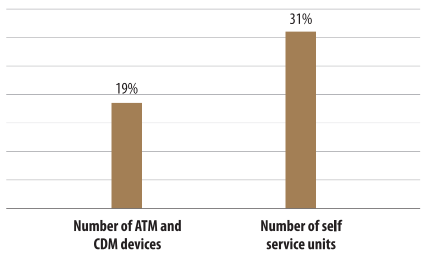


The Bank has introduced a comprehensive array of information and guidance related to its online and social media platforms. The information will assist clients execute online transactions, and provides recommendations to ensure cyber security.

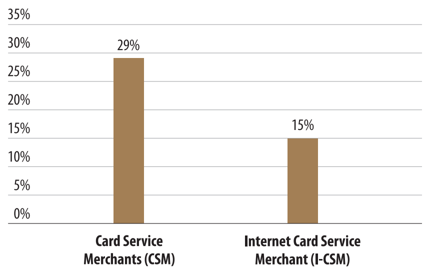
THE FIRST CONFERENCE IN E-COMMERCE

Golomt Bank was a co-organizer of the First Conference on E-Commerce that was attended by over 200 participants and featured 12 speakers and 27 industry experts in the fields of manufacturing, sales, banking, online payments, logistics, insurance, ISP and software development.

Expansion via Devices (growth %)



Number of Customers (growth %)



EXPANSION OF INTERNET SERVICE

In its effort to expand the number of card service merchants and introduce quick and easy payments solutions, Golomt Bank implemented a number of successful initiatives, including a forum dedicated to preventing and managing transaction risks.

SELF-SERVICE BANKING CENTERS

Golomt Bank is the first Mongolian commercial bank to introduce device-based technologically innovative Self-Service Banking Centers. The technology allows clients to receive more than 40 services that are grouped into 15 categories, and which previously required in-person interaction with a bank employee. These services are available to Bank clients on their smart phones, tablets and other internet-enabled devices.

This pioneering initiative is defining the future of banking, bank service procedures and branch service in Mongolia.

Corporate Banking

Corporate Banking Clients

Large public and private sector enterprises	Companies with concession rights to implement projects	Foreign-invested companies	Embassies	Universities and colleges

To cater to the needs of our corporate banking clients, we introduced corporate debit cards, overnight savings, different salary payment options, cash flow management and e-ticket services in 2015.

Despite economic stagnation in 2015, Golomt Bank was successful in sourcing US$ 54 million from leading international banks. The funds were on-lent to local companies which helped promote investment and economic growth in Mongolia.

We at Golomt Bank believe that the key to long-term sustainable growth and prosperity is economic diversification. Consequently, we go the extra mile to aid businesses operating in the sectors that we believe have the most potential for future growth. We worked particularly closely with domestic agribusinesses, notably those in milk production, cashmere production, and greenhouse farming to expand their capacity and finance technology acquisition.

Despite the economic stagnation in 2015, Golomt Bank successfully sourced US$ 54 million from leading international banks and on-lent the funds to local companies, thereby making material contributions to the economic activities in Mongolia.

Price Stabilization Program for Meat and Fuel

Total of 47 billion disbursed	28% of Mongolia's annual fuel consumption	43% of annual meat consumption made possible by Golomt Bank

Golomt deployed its own funds to finance the following projects:

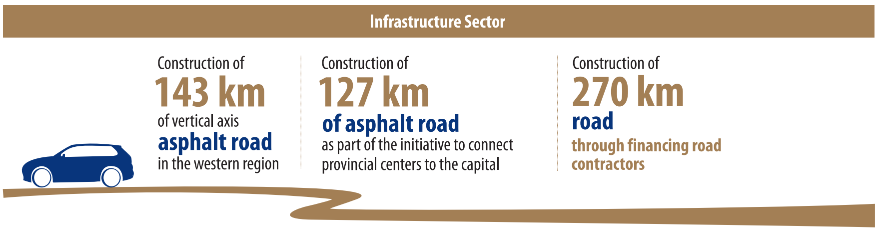
- Construction of a 4,000 m2 retail and service center that created 570 jobs,
- Construction and commissioning of 5,900 new apartments,
- Construction of a 39 km underground system to transport fresh water and sewerage, and
- Construction of gas re-fill stations for vehicles and household consumers in all 21 provinces across Mongolia in an effort to promote alternative fuels.

MINING AND INFRASTRUCTURE SECTORS

The global economic downturn and a sustained slowdown in Chinese manufacturing and industry persisted in 2015. Mongolia fell victim to tumbling commodity prices, despite increased volumes of minerals exports.

Golomt Bank supports the responsible and productive development of the mining and infrastructure sectors, and with global banks and financial institutions we mobilized trade finance and other banking solutions that were tailored to clients' specific needs. Consequently, we maintained loan-growth to the mining and infrastructure sectors, but held the share of the portfolio invested in these sectors under 20 percent in order to contain single-sector risk exposure.

In 2015, we also joined the Gold Purchase Program and the Working Capital Financing Program that are co-implemented by the Government of Mongolia and the Central Bank of Mongolia which are providing finance to support gold producers and increase the country's foreign exchange reserves.



GOLD AND CURRENCY TRADE

Amidst an array of economic challenges that include the ongoing contraction of foreign direct investment into Mongolia, a drop in aggregate trade, and a reduction in the money supply which suppressed demand, Golomt Bank proactively sought to address our clients' needs to protect against FX risks, and offered then access to financial derivatives.

In 2015 Golomt Bank continued to buy physical gold at competitive prices from individuals and businesses at a rate commensurate with that of 2014. The Bank accounted for 12 percent of the gold purchased by the Central Bank of Mongolia last year. Golomt Bank also offered gold-backed financing and gold depository services.

In order to improve the financial literacy of clients and provide up-to-date market information associated with gold and currency trading, Golomt launched a new series of tools, including:

- Daily morning reports on international and domestic market intelligence
- FX market updates for VIP clients
- Gold market summaries for gold producers; and
- Oil, gold and copper market reports for clients interested in our hybrid savings accounts.

Investment Banking Operations

Golomt Bank intensified its investment banking business in 2015 by introducing new capital markets products and services, and through client education related to our investment banking services and the range of financial solutions that we offer.

As a result of increasing cooperation with international capital markets, we were able to deliver high-end investment advisory, underwriting, project financing and intermediary services to our clients. We also added custodial services to our comprehensive array of investment banking solutions.

In 2015 we expanded our network of internationally renowned financial institutions which facilitated an expanded offer of import/export trade finance, and accelerated the speed with which we could execute international transactions.

PUBLIC OFFERING AND ISSUANCE OF MONGOLIA'S FIRST-EVER 100% INSURED CORPORATE BOND

In conjunction with its underwriting operations, Golomt Bank issued the Erchim Bond, the first of its kind, 100% insured, corporate bond that was sold through the Mongolian capital market. The bond was listed on the Mongolia Stock Exchange and was eligible for public purchase.

The bond was offered at a face value of MNT 100,000 and raised MNT 500 million. It was oversubscribed 4.7 times having received MNT 2,4 billion worth of orders. The record-breaking demand marked one of the best-received offerings in the history of the Mongolia Stock Exchange and the local capital market.

GOLOMT BANK RAISED US$ 100 MILLION IN DEBT FINANCING

As a result of deepening relations with global financial institutions, Golomt Bank raised US$ 100 million in debt finance which was important for the Bank, and also for the Mongolian economy. The US$ 100 million security was the largest ever placed and sold by Golomt Bank, and it provided a boost to the local market that has struggled as a result of the sharp decline in foreign direct investment.

As a result of deepening relations with global financial institutions, Golomt Bank raised US$ 100 million in debt finance which was important for the Bank, and also for the Mongolian economy.

GOLOMT BANK ACTED AS JOINT LEAD MANAGER IN THE GOVERNMENT OF MONGOLIA'S US$ 500 MILLION INTERNATIONAL BOND OFFERING

As part of its underwriting operations, Golomt Bank acted as Joint Lead Manager in the Government of Mongolia's US$500 million international bond offering. The security was registered with the Singapore Stock Exchange, and matures in five years. In managing and placing the issue, Golomt Bank partnered with four large international banks, one local securities firm, and with domestic and global law firms.

GOLOMT BANK EXPANDED ITS PROJECT FINANCE CREDIT LINES

Golomt Bank's Investment Banking Division signed medium and long-term ECA financing lines with Export Development Canada and a Memorandum of Cooperation with the Czech Export Bank, in order to expand the bank's partnership with leading global financial institutions and promote local exporters and importers. These newly-established relationships will provide Mongolian businesses access to medium and long-term financing on very favorable terms for the import of agricultural, mining and manufacturing machinery, equipment, products and services.

GOLOMT BANK ORGANIZED A DISCUSSION FORUM ON AGRICULTURE SECTOR PROJECT FINANCING

In partnership with the ADB, the EBRD and the IFC, Golomt Bank organized a forum on agriculture sector financing in mid-March 2015. More than 250 participants from industry and the international financial institutions discussed the unique and immediate financing needs of Mongolia's agriculture sector. The event was fruitful for all who attended.

GOLOMT BANK ORGANIZED THE "INVEST IN MONGOLIA" CONFERENCE IN NEW YORK FOR THE THIRD CONSECUTIVE YEAR

For the third year in a row, Golomt Bank, Golomt Securities LLC and the New York Society of Security Analysts (NYSSA) successfully convened an investment forum in New York, a global financial center. The forum sought to introduce Mongolia's more eminent businesses and companies to international investors.

The forum shone a spotlight on Mongolia for the global investor community that led to new partnerships and investment opportunities.

AREAS OF FOREIGN RELATIONS AND COOPERATION

Last year Golomt Bank expanded cooperation with internationally recognized financial institutions, increasing the offer of import & export financing products and services available to local clients, and accelerating the speed with which the Bank executes clients' transactions.

Golomt Bank

Work in cooperation with over **70 financial organizations around the world**	International transactions performed in **13 different currencies**	Golomt Bank's resources generated from foreign banks increased **63% year-on-year**	The capacity of trade financing lines increased **18%**	The capacity of import financing lines increased **24%**

Last year Golomt opened an offshore custodian account with Deutsche Bank in order to increase the scope of business and banking operations, and to introduce new products, services and solutions. The Bank is also able to offer Yuan accounts with Commerzbank permitting it to execute derivative transactions.

Golomt Bank plays a leading role among retail banks promoting business relations between Mongolia and China. The Bank bolstered this position when it signed the first Memorandum of Cooperation with the Bank of China to support and encourage trading in tugrik currency futures.

The Bank also negotiated and signed a Cooperation Agreement on Financing with China's Baoshang Bank which led to the first project between Mongolian and Chinese retail banks. This path-breaking project took bi-lateral financial and economic cooperation a big step higher.

In 2014 Golomt Bank became the Mongolian member of the Asian Financial Cooperation Association (AFCA) which includes 38 of the leading financial institutions from Asia and the People's Republic of China. Membership in AFCA expands the breadth of global banking and financial services available in Mongolia.

INCREASE FOREIGN TRADE FINANCING LINES AND THEIR USAGE

In order to deliver a wider variety of foreign trade financing services to our customers, Golomt Bank established relationships with Danish Nordea Bank, Russian Rosexim Bank, IIB, Polish BGK, Turkish Kuveyt Katilim Bankasi, and Czech CSOB bank. Cooperation with these banks provides our clients who are importing from or doing business with companies located in these host countries access to highly competitive financing options.

Foreign Trade Finance Product and Services

Import and export Letters of Credit	Stand-by Letters of Credit, Foreign Guarantees, Back to back Guarantees	Letter of Credit Guarantees	Letter of Credit Post-Financing	Receipt Transaction	Import Loan	Export Credit Agency (ECA)

Educating our clients on trade finance contributes to increasing financial knowledge, which is among our main goals. Last year we organized a Seminar on Foreign Trade Financing with the Mongolian National Chamber of Commerce and Industry for our corporate clients. We invited foreign participants that support trade finance to the seminar, which proved very effective in promoting learning.

CUSTODIAN BANK OPERATION

Last year Golomt Bank introduced custodian bank services to its customers and to the Mongolian market. This pioneering effort to further develop the country's financial markets was brought to fruition by Golomt Bank with regulators, international partners and other stakeholders.

Timeline

August 2014	Received first certificate from the Financial Regulatory Commission (FRC) to offer custodial services
February 2015	International Bank for Economic Cooperation (IBEC) was brought in as the first custodian client and opened an account
April 2015	Signed a Memorandum with Nomura Research Institute Financial Technologies (NRIFT) and launched a custody registration ICS system
August 2015	Began using the ICS system
September 2015	Over 100 esteemed foreign and local guests were invited to the Custodian Bank opening ceremony

October 2015	Introduced ICS system Version 2 enabling connection with the core banking system and with correspondent banks through the SWIFT network
November 2015	Introduced ICS system Version 3 providing full-service access to all types of investment funds

INTERNATIONAL RATING

S&P: B- /Stable

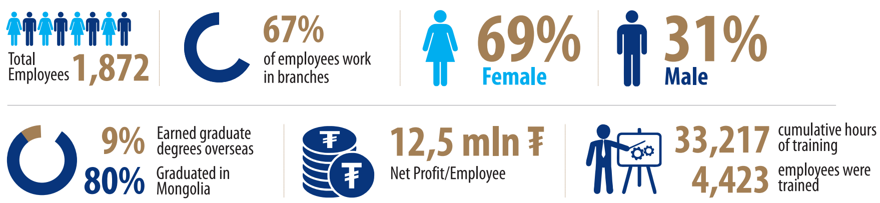
In November 2015 international ratings agency, Standard & Poors, lowered its sovereign rating on Mongolia from B+/Negative to B/Stable because of perceptions that Mongolia's economic risk had heightened substantially, stemming from the significant slowdown in the country's economic performance and outlook.

The credit rating of Golomt Bank was also reduced, to B-/Stable from B/Negative.

Moody's: Local Currency Long-term deposit – B2/Negative

In May 2015 international ratings agency Moody's assigned Golomt Bank LLC a global local currency long-term deposit rating of B2 and a foreign currency long-term deposit rating of B3. The Bank's ratings were consistent with those assigned to the sovereign, whose macro-profile was assessed to be "very weak."

Human Resources



HIGHLIGHTS OF THE 2015 HUMAN RESOURCES PROGRAM

- Human Resources recruitment, selection, training and long-term development programs implemented
- Segmented training development program for customer services staff implemented
- Organized a total of 6,880 man-hours of personal development programs

Kaizen Efficiency Program

Employees generated 2,038 ideas, of which 22 have been implemented in daily operations

Pension Fund

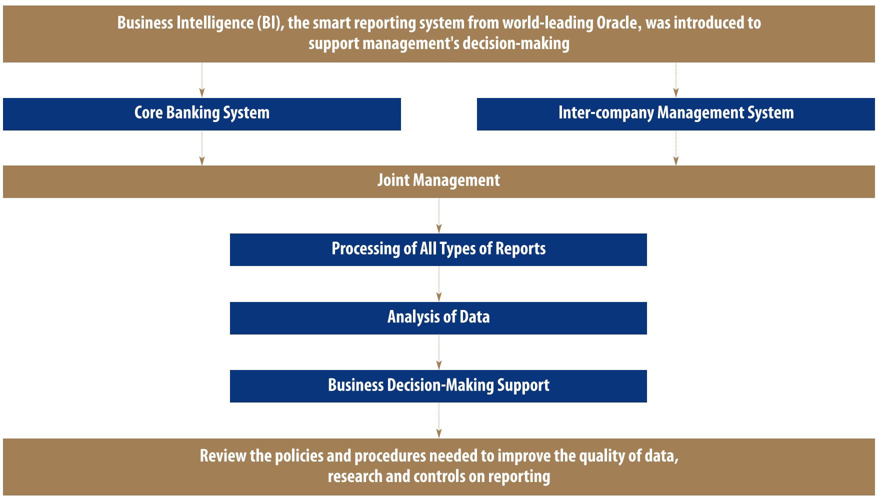
The pension fund reached 1,300 members in 2015 and saving fund assets increased 35% to MNT 5,9 billion

Sports Activities

Over 150 employees walked 80 km, and placed a Mongolian national flag on the summit of Khentii Mountain at 2,799 meters above sea level

Technology

In 2015, Golomt Bank launched initiatives to enhance and strengthen the operational quality and productivity of its Management Information System (MIS).



In 2015 Golomt Bank introduced custodian bank services to its customers and to the Mongolian market in an effort to further develop the country's financial markets. The effort was brought to fruition by Golomt Bank with regulators, international partners and other stakeholders.

Corporate Social Responsibility

Golomt Bank implemented its Sustainable Financing Policy in 2015 and was named the leading bank in sustainable financing policy. In 2016 the Bank will continue to lead other banks.

Golomt Bank: Support for Education

Golomt Bank organized the 13th Student Scholarship Program in 2015.

A total of **1,300 students**

1 billion in scholarships was awarded

GOLOMT BANK 20 Years 1995-2015

In celebration of Golomt Bank's 20th anniversary **20 students in the most demanding majors,** as defined by the Government, participated in the program

To support financial literacy among customers and the general public, Golomt Bank introduced the web site: WWW.EDU.GOLOMT.COM which explains banking, finance, and the economy simply and clearly.

www.edu.golomtbank.com ТАНЫ САНХҮҮГИЙН БОЛОВСРОЛД

Published the first-ever dictionary of nearly **6,000 English banking** and finance terms.

Initiated the first ever **Asia Leadership Center of Harvard University**

Organized the Asia Leadership Conference 2015 of which Golomt Bank was the main sponsor

The Bank is an official partner of the Mongolian Horse Piano Quorum, and for the last 4 years has contributed to the development and protection of national culture and heritage

Golomt Bank sponsored the **Students' Research Conference** for the **14th year**

АЛТАН ТҮЛХҮҮР

Supported the **Golden key fund** which promotes children's well-being and has raised **475 million tugriks**

We celebrated our youngest customers on Mothers' and Children's Day with over **30 kids from** Life Wisdom NGO

For the future of Mongolia's 3 million citizens we introduced Golden Key Savings accounts for MNT 3 million

HIGHLIGHTS OF THE 2015 CORPORATE SOCIAL RESPONSIBILITY PROGRAM

- NCMCH, Neonatal Research Department was fully remodeled permitting nationwide support for children born with complications associated with premature and other high-risk deliveries.

Save a life Give Blood

- Over 1,800 Golomt Bank employees and staff donated blood at the Donors' Day Event organized with the Blood Center
- Golomt Bank and the Munkhchuluun Foundation together supplied essential medical equipment and instruments provided by the American organization, MedWish, to hospitals across the country
- Golomt Bank staff donated to the MNT 1,000 campaign launched with Channel MN25, and purchased urgently-needed equipment for the NRCDI

Golomt Bank for a Green Future

UNEP **Golomt Bank became the first Mongolian bank to join the UN Environment Program's Financial Initiative for a Paperless Bank.**

ЦААСГҮЙ БАНК

In our mission to save the environment we **launched a campaign to promote paperless internet banking**

Customers can review their account balances, execute payments and transfers anytime

In conjunction with the Bank's Sustainable Financing Policy (SF), Golomt Bank permits pregnant women, mothers with young children less than 2 years of age, elderly and handicapped people to move to the front of the line – they no longer have to wait in line.

Golomt Bank is committed to protecting the environment, and to socially-friendly and transparent business at all levels of our operations. Together with the Mongolian Bankers' Association we adopted a Sustainable Financing Policy (SF) and adopted some basic principles.

ToC

Golomt Bank implemented its Sustainable Financing Policy in 2015 and was named the leading bank in sustainable financing policy. In 2016 the Bank will continue to lead other banks.

Golomt Bank for the Country's Development

Golden sponsor of the **Mongolian Economic Forum**

Traditionally sponsored DISCOVER MONGOLIA Discover Mongolia, the mining industry investors' forum

Golomt Bank, Mandal General Insurance and the Business Council of Mongolia organized the Mongolian Risk Management Forum in 2015

Organized the first seminar **Developing Competitive Capacity for customers** operating in the consumer goods industry

Sponsored the first-ever **Made in Mongolia Industrial Forum**

Correspondent Banks

List of Correspondent Banks – March 2016
Golomt Bank SWIFT Code: GLMTMNUB

№	COUNTRY	CORRESPONDENT BANKS	SWIFT CODE	CURRENCY	NOSTRO ACCOUNTS
1.	**Australia**	**AUSTRALIA AND NEW ZEALAND BANKING GROUP** ANZ CENTRE MELBOURNE, LEVEL 9, 833 COLLINS STREET DOCKLANDS, VICTORIA, AUSTRALIA, 3008	**ANZBAU3M**	AUD	920660AUD00001
2.	**Austria**	**RAIFFEISEN BANK INTERNATIONAL AG** VIENNA 1030 VIENNA AUSTRIA	**RZBAATWW**	EUR	1-55 076 335
3.	**Canada**	**CANADIAN IMPERIAL BANK OF COMMERCE** TORONTO M5G 2M8, CANADA	**CIBCCATT**	CAD	1818910
4.	**China**	**AGRICULTURAL BANK OF CHINA** (Beijing) INT.L DEPT. 5/F, JIN YU PLAZA ROAD, BEIJING100036, P.R.CHINA	**ABOCCNBJ**	USD	8211000908
5.		**AGRICULTURAL BANK OF CHINA** (Huhhot) (NEIMENGGU BRANCH) HUHEHAOTE, INNER MONGOLIA, P.R.CHINA	**ABOCCNBJ050**	USD CNY	05999914040000049 05999901040000053
6.		**BANK OF CHINA** INNER MONGOLIA BRANCH ERLIAN SUB-BRANCH, P.R.CHINA	**BKCHCNBJ880**	USD CNY	155605293946 154005293944
7.		**BAOSHANG BANK** INNER MONGOLIA BRANCH BAOTOU, P.R.CHINA	**BTCBCNBJ**	CNY USD	002105599800010 002105599800020
8.		**CHINA CONSTRUCTION BANK** NEIMENGU BRANCH, P.R.CHINA	**PCBCCNBJNME**	USD CNY	NRA15014150500220100181 15001658408052502177
9.		**INDUSTRIAL AND COMMERCIAL BANK** INNER MONGOLIA BRANCH NO.105, XILIN NORTH ROAD HOHHOT, INNER MONGOLIA, P.R.CHINA	**ICBKCNBJNMA**	USD CNY	0610040629200061234 0610040609200054391
10.		**BANK OF INNER MONGOLIA** 33 TENG FEI ROAD, HUHHOT, INNER MONGOLIA, P.R.China 010020	**HSSYCNBH**	USD CNY	115914236000000184 115901236000000122
11.		**BANK OF COMMUNICATIONS** INNER MONGOLIA BRANCH, NO.18, HOHHOT, INNER MONGOLIA, P.R.CHINA 010010	**COMMCNSH**	CNY	151899991010003021570
12.		**CHINA CITIC BANK** HUHEHAOTE BRANCH HUHEHAOTE, P.R.CHINA	**CIBKCNBJ010 Bank Code: 302191027101**	USD CNY	7271111486000000181 7271110186000000155

13.	Germany	**COMMERZ BANK AG, FF/AM MAIN** 60261 FRANKFURT AM MAIN, GERMANY	**COBADEFF**	USD EUR CHF GBP JPYCNH	400 878 506 500 400 878 506 501 400 878 506 500 400 878 506 500 400 878 506 500 400 878 506 508
14.		**DEUTSCHE BANK AG** 60262, FRANKFURT AM MAIN, GERMANY	**DEUTDEFF**	EUR	100-9517673-0000
15.		**BERLINER SPARKASSE-LANDESBANK BERLIN AG** ALEXANDERPLATZ 2, 10178 BERLIN, GERMANY	**BELADEBE**	USD EUR	10050000/3270000250 10050000/6630008373
16.	**Hong Kong**	**BANK OF CHINA (HONG KONG) LIMITED** BANK OF CHINA TOWER, 1 GARDEN HONG KONG	**BKCHHKHH**	HKD CNY USD	012-875-60115674 01287560118495 01287560121220
17.		**MIZUHO BANK LTD** MARUNOUCHI, CHIYODA-KU, TOKYO 100-8210 JAPAN	**MHCBJPJT**	JPY	6740010
18.	**Japan**	**SUMITOMO MITSUI BANKING CORPORATION** 1-2 YURAKUCHO 1-COME, CHIYODA-KU, TOKYO, JAPAN	**SMBCJPJT**	USD JPY	3623 4374
19.		**BANK OF TOKYO MITSUBISHI** JP TOWER, 2-7-2 MARUNOUCHI, CHIYODA-KU, TOKYO 100-0005, JAPAN	**BOTKJPJT**	USD JPY	653-0455601 653-0432881
20.	**Kazakhstan**	**KAZKOMMERTSBANK** JOINT-STOCK COMPANY 135G, GAGARIN ST., ALMATY, 050060, REPUBLIC OF KAZAKHSTAN	**KZKOKZKX**	USD	KZ769260001000694001
21.		**KOREA EXCHANGE BANK** 181, 2-KA, 181, EULJIRO 2-GA, JUNG-GU, C.P.O. BOX 2924, SEOUL 100-793, KOREA	**KOEXKRSE**	USD KRW	963-THR-313-01-2 0963FRW001000054
22.	**Korea**	**SHINHAN BANK, SEOUL** P.O.BOX 2997 SEOUL 100-629, KOREA	**SHBKKRSE**	USD KRW	0102245USD01 0102245KRW01
23.		**HANA BANK, SEOUL** JONG-RO, JONG-RO-GU, SEOUL 110-130 KOREA	**HNBNKRSE**	USD KRW	060-910001-25031 060-910001-06501
24.		**KOOKMIN BANK, SEOUL** 10, YEOUIDO-DONG, YOUNGDEUNGPO-GU, SEOUL, KOREA 150-868	**CZNBKRSE**	USD KRW	819-8-USD-0-15 819-8-KRW-0-17
25	**Taiwan**	**LAND BANK OF TAIWAN** HEAD OFFICE 46, KUAN CHIEN ROAD, TAIPEI, TAIWAN	**LBOTTWTP**	USD	088-185-00002
26.	**Turkey**	**YAPI ve KREDİ BANKASI A.Ş** YAPI KREDI PLAZA D BLOK, LEVENT 34330 ISTANBUL, TURKEY	**YAPITRIS**	USD	95711515

27.	**Poland**	**mBANK** 18 SENATORKA STREET,00-950 WARSAW, POLAND	**BREXPLPW**	PLN	IBAN: PL 52 114 000 000 000 114 851 001 001
28.	**Russia**	**SBER BANK,** 31 DEPUTATSKAYA ST, 664047, IRKUTSK RUSSIA	**SABRRU66 231231**	USD RUB	30111840518000000003 30111810618000000001
29.		**SBER BANK, MOSCOW** 19 VAVILOVA STREET, 117997MOSCOW, RUSSIA	**SABR RUM 012**	USD RUB	30111840100000000840 30111810800000000840
30.		**JSC BANK FOR FOREIGN TRADE** BIK: 044525187, RUSSIA K/S: 30101810700000000187	**VTBRRUMM**	RUB USD	30111810655550000126 30111840155550000104
31.		**RUSSIAN AGRICULTURAL BANK** 119034 MOSCOW, RUSSIA BIK: 044525111 K/S: 30101810200000000111	**RUAGRUMM**	USD RUB	30111840300000000006 30111810200000000013
32.	**Singapore**	**UNITED OVERSEAS BANK LIMITED** 80 RAFFLES PLACE, #05-00 UOB PLAZA 1 SINGAPORE 048624	**UOVBSGSG**	SGD	301-399-069-5
33.		**DBS BANK** MARINA BAY FINANCIAL CENTRE, TOWER 3, SINGAPORE, 018982	**DBSSSGSG**	USD	0710-000182-01-5
34.	**United Kingdom**	**BARCLAYS BANK PLC** 1 CHURCHILL PLACE, LONDON E14 5HP, UK	**BARCGB22 Sort Code: 20-32-53**	GBP	43379779 IBAN:GB33BARC20325343379779
35.	**USA**	**STANDARD CHARTERED BANK** NEW YORK, NY 10036, USA	**SCBLUS33**	USD	3582-026934-001
36.		**DEUTSCHE BANK TRUST COMPANY AMERICA** NEW YORK, NY 10004, USA	**BKTRUS33**	USD	04453138
37.		**MASHREQ BANK PSC** 255 AVENUE, NY10016, USA	**MSHQUS33**	USD	70010461

Bank and Financial Institutions Collaborating on Trade Finance

Commerzbank AG, Frankfurt am Main, Germany	COMMERZBANK
Deutsche Bank AG, Frankfurt am Main, Germany	Deutsche Bank
Atlantic Forfaitierungs AG, Zurich Switzerland	atlantic forfaitierungs ag
Asian Development Bank, Manila, Philippines	ADB
Industrial & Commercial Bank of China	ICBC 中国工商银行
Baoshang Bank, China	BSB 包商银行 BAOSHANG BANK
The Export-Import Bank of the ROC, Taiwan	The Export-Import Bank of the ROC
BHF-Bank AG, Frankfurt am Main, Germany	BHF BANK PRIVAT SEIT 1854
The Export-Import Bank of Korea, Seoul	한국수출입은행 THE EXPORT-IMPORT BANK OF KOREA
Nordea Bank Denmark	Nordea
Unicredit Bank	UniCredit Bank
Hungarian EXIM Bank	exim
BGK, Bank Gospodarstwa Krajowego, Poland	BANK GOSPODARSTWA KRAJOWEGO
Vnesheconom Bank, Russia	VNESHECONOMBANK
International Investment Bank, Russia	INTERNATIONAL INVESTMENT BANK
SACE, Italy	SACE
CSOB, Czech Republic	ČSOB
Kuveyt Türk Katılım Bankası, Turkey	KUVEYTTÜRK
RosExim, Russia	РОСЭКСИМБАНК

Risk Management

Effective and appropriate risk management is not only the foundation of the Bank's success, but it also provides the impetus to implement strategic objectives within the Bank. Risk is fully understood by executives at all levels. By adopting strong risk management policies, inspiring a risk management culture, and by educating each bank staff on risk management in their areas of responsibility and accountability, Golomt Bank is reducing and mitigating risk bank-wide.

Risk Management System

Golomt Bank's Risk Management is focused on achieving an optimal ratio of risk and return subject to risk limits. In today's dynamic political and economic environment, the Bank assesses and analyses trends in risk, and adjusts and amends plans when conditions warrant. The Bank has implemented measures to mitigate risk, such as its Crisis Action Plan, the Governance Code of Conduct, and implementation of the Finacle universal banking system produced by internationally-recognized Infosys Corporation.

Golomt Bank has reinvigorated its three-level risk management structure which has improved the systems to enhance and strengthen each units' risk management practices. This includes:

- Business units manage the risks they face in their operation, and take full responsibility for decisions
- The Risk Management Division defines the Bank's Risk Management Policy; monitors business units' risk management practices; enforces policies, rules and regulations; and issues recommendations related to risk limits and operating scope.
- The Internal Audit Division monitors operations, and assesses whether audit inspection recommendations and requirements are being implemented by first and second line managers, and it renders recommendations for further improvement.

Golomt Bank's risk management system consists of key components, including: risk governance, a risk management culture, risk limits, and risk mitigation tools.

1. Business Units	2. Risk Management Division	3. Internal Audit Division
· Every unit is responsible for the risks associated with its operations · Assess risk and return at all critical decision-making junctures · Constantly analyze and affirm that the unit's operations conform to the Bank's risk policies and regulations, and risk appetite. · Embed risk in the unit's Key Performance Indicators (KPIs) with business and financial indicators.	· Operate independent of other units to manage risk · Define risk management policy, monitoring and risk limits, and report on implementation and enforcement. · Assign risk limits and other practices for each business unit within the scope of the Risk Management Policy · Provide recommendations and training to support implementation of the Bank's risk management policies and regulations.	· Monitor Bank operations independently and autonomously · Analyze and assess the appropriateness of the Bank's risk management and monitoring systems · Report objectively and accurately on bank operations to management and the Audit Committee

Risk Governance

Effective risk management is based upon strong governance that is relevant to the organization. Golomt Bank's Board of Directors is actively involved in managing risk with support from the Risk Management Division which reports directly to the CEO and the Risk Management Committee.

BOARD OF DIRECTORS

The Board of Directors approves all risk management policies and risk limits, and ensures implementation through quarterly review by the Risk Management Committee.

EXECUTIVE MANAGEMENT

Golomt Bank's executive management team enforces and implements risk policies and risk limits that are approved by the Board of Directors. The Internal Audit and Risk Management Divisions oversee and ensure that the bank units and their personnel operate within the boundaries of the risk management policy. The CEO is directly responsible for the Managing Committee and reports directly to the Board of Directors.

RISK MANAGEMENT DIVISION

The Risk Management Division implements the Bank's risk management, and is independent of all other business units.

MANAGEMENT COMMITTEE

The Management Committee ensures that the Bank's strategies, policies, business plans and other documents that require Board approval address risk management, potential risk-related restrictions, financial controls and performance as required for rational and informed decision-making.

CREDIT COMMITTEES

Loan Committees, depending upon loan size, operate as a Credit Committee or Sub-Committee. These committees make decisions in accordance with the Risk Management Policy and the credit limits that are approved by the Board of Directors. The Credit Committee approve credit procedures and regulations, provide guidance and instruction, and oversee the implementation of rules.

Golomt bank develops and approves relevant risk restrictions within the bank with consideration of units' specific operation and scope, which is the main component of effective risk management, and implements them.

ASSET AND LIABILITY COMMITTEE

The Executive Manager(s) develop step-by-step action plans, and set and implement appropriate risk restrictions in order to manage the Bank's assets and liabilities optimally, and enhance profitability.

RISK MANAGEMENT CULTURE

Golomt Bank's business units constantly amend and revise regulations, procedures, business plans and evaluation methods in order to align the units' business plans with the Bank's risk management structure. Each unit is responsible and accountable for all management and decisions, and must enforce compliance with all risk parameters. All staff will be enrolled regularly in foreign and domestic risk management training.

RISK APPETITE

Golomt Bank develops, approves and implements relevant risk restrictions and limits according to each unit's operations and scope. Risk restrictions and limits are set in a manner consistent with the Bank's strategic and financial objectives. They are derived through quantitative and qualitative research associated with and reflecting the Bank's ability to withstand risk.

Credit Risk

The Bank's Credit Risk Management Department is responsible for overseeing the quality of the loan portfolio, minimizing credit risks, and for developing Credit Risk Policy for Board approval. The Credit Risk Management Department also ensures policy implementation by other branches and units.

As a result of Bank restructuring in 2015, the Credit Risk Management Department was expanded in order to promote more research-based methodologies, policies and recommendations.

Golomt Bank upholds all prudential ratios that are set by the Central Bank of Mongolia, and adopts all changes to international reporting standards or international auditing standards that affect our estimates of impairment credit impairment when it is affected.

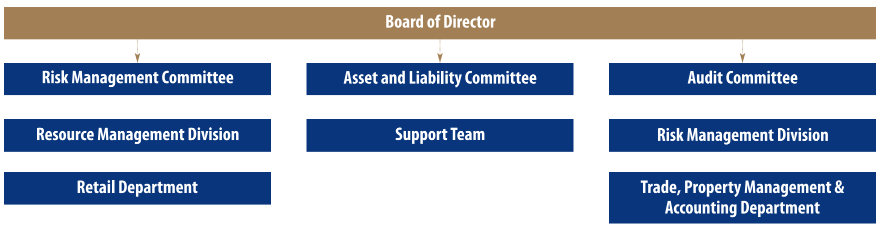
As the Bank's operations expand, there is growing need for a system to approve loans efficiently and expeditiously. Based upon the Bank's historical data, we are now able to develop a credit scoring model that we apply to salary, credit card and mortgage loan products. We are also developing a methodology to determine and assign credit ratings to the Bank's corporate and SME clients.

In 2016 the Credit Risk Management Department will be able to reduce potential credit risk by integrating accurate and reliable credit information into a comprehensive database. The database will adopt a consistent methodology that provides users with standardized and accurate internal and external reports, and from which we will derive a watch-list based upon credit ratings.

Market Risk

Market risks involve movements in exchange rates, loan rates, securities risks, and interest rate and payments risks. Assessing and defining appetite for market risk falls within the purview of the Risk Management Committee. Market risk parameters are approved by the Board of Directors, with implementation monitored and overseen by the Asset and Liability Committee.

MARKET RISK MANAGEMENT SYSTEM



The Resource Management Division oversees and manages day-to-day market risks by ensuring policy implementation and compliance with risk restrictions.

The Risk Management Division evaluates and anticipates trends in market risks, and provides guidance on risk reduction.

FOREIGN EXCHANGE RISK

Major risks affecting the retail portfolio are associated changes in interest rates, market liquidity, market price changes, and movements in foreign exchange rates. Golomt Bank estimates the impact of foreign exchange-related losses on weighted assets, and on all open foreign currency positions according to several different methods approved by the Central Bank of Mongolia in 2015, including the Greatest Risk (GR) or Value at Risk (VaR) methods.

VaR is a technique used to estimate the adverse impact on a portfolio's market value resulting from changes in foreign exchange rates or other external variables over a specified timeframe.

VaR is calculated for terms of between one and ten days, and is verified by testing against past gains and losses. We also execute stress tests for the Bank that assess potential losses according to VaR analysis.

INTEREST RATE RISK

Interest Rate Risk is the principal risk that plagues the Bank's non-retail portfolio. In order to reduce the impact of interest rate risk on Bank profits or the value of assets, we monitor sensitivity actively.

Several tools are used to estimate interest income and include: interest rate gap analysis and time gap analysis. Our interest rate risk mitigation system includes:

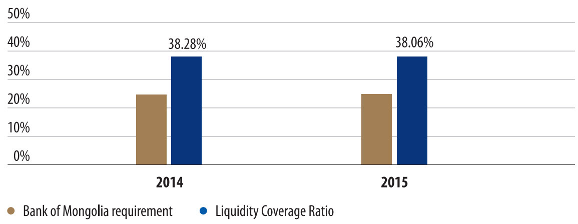
- Maximum loss limits
- Interest rate differential limits
- Interest rate minimization in resource allocation

LIQUIDITY RISK

Golomt Bank maintains liquidity at levels that meet internal indicators, and Central Bank of Mongolia-prescribed Liquidity Coverage Ratio and other liquidity ratios.

Golomt Bank maintains liquidity at levels that meet internal indicators, and Central Bank of Mongolia-prescribed and other liquidity ratios.

Liquidity Ratios



Golomt Bank's liquidity management system is designed to establish levels at which all financial functions can be sustained during times of market stability and instability.

The Resource Management Division is the unit that manages and oversees liquidity coverage, and works in coordination with the Risk Management Division and all other related units. It manages liquidity based upon current needs, future forecasts and stress tests.

The Risk Management Committee under the Board of Director oversees the Bank's liquidity, and issues recommendations on liquidity risk management consistent with international best practices and subject to legal requirements. The Committee also identifies and enforces implementation of risk restrictions and limits.

The Asset and Liability Committee monitors relevant risk by employing internal and external control systems. Liquidity risk is measured and managed using the following tools:

- Interest rate gap analysis, monthly duration and foreign currency analysis
- Cash flow forecasts, and long-term balance sheet forecasts
- Asset and liability monitoring according to monthly Finance Management Department reports
- Daily monitoring of liquidity coverage, prompt transaction and minimum resource requirements
- Liquidity estimations based upon analytic and liquidity reports issued the Asset Management, Corporate Bank, and other internal departments

In order to prevent dependence of bank assets and resources on economic sectors and large customers groups, we set concentration risk limits in order to decentralize.

LOAN CONCENTRATION AND PORTFOLIO DIVERSIFICATION

In order to restrict the over concentration of Bank assets or resources in any one client or economic sector, Golomt Bank sets exposure limits that force portfolio diversification.

We further reduce concentration risk by restricting a majority of our resources to long-term checking and savings accounts, and by focusing on optimal clients (for large and small customers).

STRESS TEST

The Risk Management Division assesses the potential impact of unexpected and force majeure events on risk indicators, and exercises different stress scenarios according to different cash flow assumptions. Stress test scenarios are based upon historic and hypothetical events.

The Bank has established an Action Plan to respond to economic slowdown or financial sector instability. The plan outlines mechanisms to overcome and respond to economic and financial market instability effectively and expeditiously.

Operational Risk

The Bank has assessed operating risk effectively, and has introduced policies, control systems, procedures and assessment tools to manage and reduce risk.

Operational risk applies to a wide scope of business activities. The Bank has successfully managed and contained direct and indirect losses associated with operating risks which include: internal operations, systems weakness or failure, human error and malfeasance, and external factors.

In order to manage the risk of unforeseen external events that are beyond management control, the Bank has purchased comprehensive insurance.

Operating risk can cause financial loss, provoke sanctions and fines, and also damage the Bank's reputation. Protecting the assets of our highly-valued customers, our account holders and shareholders is central to our purpose, and so we enforce a culture of risk management at all levels that is anchored to sound operational risk governance and bank management.

In 2015 we contained losses due to operational risk below the risk limits that were approved by the Board of Directors.

GOVERNANCE

The Bank has been effective in assessing operating risk, and it has introduced effective controls, policies, procedures and assessment tools.

Golomt Bank's operating risk structures have adopted the following basic principles:

- Performing risk assessment and independent control to define risk management structure, and affirm full and consistent implementation
- In addition to the Risk Management Division, each of the Bank's business units also plays a role in managing and mitigating operating risk.
- The Internal Audit Department provides additional independent recommendations to reduce operating risk, and it reports directly to the Board of Directors

Golomt Bank has worked to implement an effective risk management structure and controls, according to limits set by the Board of Directors.

- The Bank's operating risk management conforms to the Bank's risk appetite and promotes efficiency at all levels in a manner that reduces risk and sustains profit targets.
- The Board of Directors plays an important role in promoting good corporate governance, and oversees operating risk management policy and systems annually.

- The Board of Directors defines and approves Operating Risk Management Policy, risk limits, and reviews operating risk reports.
- The Board of Directors has emphasized a risk management culture as the basis for risk detection and control. The Bank's research on risk culture is based on models adopted by international organizations such as PWC, McKinsey, and the Institute of Risk Management (IRM).
- The Chief Executive Officer leads the Management Committee, and this committee oversees the Bank's overall operating risk management.
- The independent Internal Audit Division plays a major role in determining and evaluating large scale and significant risks, and for containing these at acceptable levels. This unit also monitors the Bank's operating risk structures and its results.

The Board of Directors approves the following issues in conjunction with the Operating Risk Management Policy:

- The definition of operating risk, risk limits and governance structure, bank-wide operational risk management objectives.
- Operating risk structures, including determining, assessing, monitoring and managing the Bank's current and prospective risk assessment methodologies.
- Within the operating risk management structure, the Bank purchases insurance transferring risk to a third-party. In addition to domestic insurers, Golomt Bank also works with Lloyds member-companies in the UK that are AA- or A rated by Moody's and Fitch rating agencies.

OPERATING RISK MANAGEMENT STRUCTURE

The Bank's operating risk management structure is based upon a unified and comprehensive method of determining, assessing, monitoring, mitigating and reporting on overall Bank risk. Golomt Bank's operating risk management structure consists of the following basic elements:

- Risk Management Division determines, assesses and manages risks, develops monitoring methodologies, reports on risk, and assesses the risk assessment and management implemented by the business units.
- Operating risk assessment begins with risk detection in high-risk processes, which may include a risk questionnaire. Detecting risks means examining risk control systems, regular monitoring, and amendment of risk indicators when warranted.
- Risk assessment of key units, products and related operations which allows bank management to identify the most significant risks and ensure implementation of effective control systems.
- Golomt Bank classifies and evaluates risk according to Basel II procedures
- The Risk Management Department oversees risk in the branch offices using Check-List, the operating risk monitoring indicator system. It assesses risk in each professional unit, operation, product and service.

- The Bank's operating risk database functions under the aegis of the Risk Management Division. Risk Managers research and analyze information in the database, provide recommendations, evaluate bank-wide risks that have occurred and compare them to risk limits, and anticipate future trends reporting to executive management and the Board of Directors.

Golomt Bank developed its compliance policy consistent with international banking standards, and has incorporated it all levels of the bank. It has established a Compliance Department under the direct management of the Chief Executive Officer.

BUSINESS CONTINUITY MANAGEMENT

In order to ensure business continuity, Golomt Bank operates in compliance with the requirements, recommendations and standards of the Central Bank of Mongolia and other regulatory authorities. The Bank maintains a back-up center that is tested regularly. All requisite changes are reflected in the business continuity plan, and in the event of system interruption we seek to restore all system functions in the shortest possible time.

COMPLIANCE POLICY

Golomt Bank ensures that operations comply with all domestic and international banking-related laws, rules and regulations, upholds business standards associated with bank transparency, and supports and enforces codes of ethics and governance.

Golomt Bank's Compliance Policy is consistent with international banking standards, and the Compliance Department that functions under the Chief Executive Officer is responsible for implementation. The Compliance Department defines and leads efforts to reduce compliance risks, ensuring implementation and adoption within the corporate culture that is associated with organizational, operational and professional ethics.

The Bank has set compliance goals and introduced compliance controls that conform to international standards.

The Compliance Department has the following responsibilities:

- Determine, assess, monitor and report on compliance risks facing the bank
- Support and provide counsel to senior bank management responsible for risk management and control
- Provide guidance, direction and advice in compliance risk management, assurance and implementation to all bank staff
- Support sustained bank operations, verifying compliance effectiveness, and conduct relevant research
- Organize training on anti-money laundering and other compliance issues, educating and training relevant Bank staff
- Promote Bank ethics, accountability and discipline, taking action to obviate conflicts of interest
- Oversee implementation, assessment and strengthening of compliance related to internal policies, rules, regulations and guidelines, such as the Codes of Conduct and Governance.

Golomt Bank complies strictly with domestic and international laws, regulations, standards and recommendations to combat money laundering and terrorist finance, supports international efforts to fight financial crimes, and participates in information-sharing and organizational activities.

The Bank's operations that support the Financial Action Task Force (FATF) include Know-your-Customer (KYC), customer identification, suspicious transactions monitoring and risk-based assessment, are being developed and improved constantly in response to changes in the legal and business environments.

The Bank is working to bring compliance up to international standards, and in 2105 management focused on adopting FATF best practices and implementing FATF standards bank-wide, particularly essential processes such as enlarging our FATF structure, improving employees' professional skills, renewing FATF policy, and automating the FATF transaction monitoring system.

We will continue to adopt international banking best practices, and plan to invest greater effort in strengthening our capacity to implement these systems comprehensively.

Asset and Liability Management

We are the first in the Mongolian banking sector to introduce combined asset and liability control management. We manage our assets and liabilities every day based upon the most up-to-date domestic and foreign markets intelligence and research.

For example, we regularly conduct liquidity risk analysis and research, asset and liability gap and maturity reporting, and monitor interest rate changes in accordance with international standards.

Asset and Liability gap and maturity report ▸	Resource concentration studies ▸	Interest rate risk studies ▸	Ratio analysis and forecasting ▸	Prompt transaction analysis and forecasting ▸	Short and medium-term cash flow analysis and forecasting ▸	Analysis of balance sheet structure

In 2015 Golomt Bank placed special emphasis on upholding high-levels of prompt transaction ability, in accordance with the recommendations of the international Basel Committee and conforming to Central Bank of Mongolia regulations. The Bank's year-end prompt transaction ratio was 37.44 percent.

GOLOMT BANK

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

31 December 2015

GOLOMT BANK LLC AND ITS SUBSIDIARY
Corporate Information

Incorporation decision	Golomt Bank (the "Bank") was incorporated as a wholly owned subsidiary of Bodi International LLC in accordance with the decision of shareholders of Bodi International LLC on 06 March 1995. Golomt Securities LLC (the "subsidiary"), as wholly owned subsidiary of Golomt Bank was incorporated as Limited Liability Company in accordance with decision No.01 dated 17 May 2011.
Certificate and License	The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 05 December 2005. The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia. The Subsidiary holds the State Registration Certificate No. 9011287134 with registration No.5481589 newly granted to the Subsidiary by the State Registration Office of Mongolia on 02 November 2011. The Subsidiary holds the Special License No. 3/97 for Capital Market Activities in accordance with Resolution No. 317 dated 02 November 2011 issued by the Financial Regulatory Commission of Mongolia.

Board of Governors	Ch.Munkhtsetseg	Chairwoman
	Z.Temuun	Member
	Urs E. Schwarzenbach	Member
	D.Munkhtur	Member
	J.Unenbat	Independent Member
	López Abelló	Independent Member
Executive Officers	L.Oyun-Erdene	Chief Executive Officer
	U.Ganzorig	President
	O.Erdembileg	EVP, Chief Corporate and Investment Banking Officer
	B.Enkhtuya	Chief Operating Officer
	N.Tserendavaa	Chief Information Officer
	M.Chimegmunkh	VP, Director of Financial Management Division
	T.Nyamsuren	VP, Director of Credit Division
	B.Munkhbaatar	VP, Director of Treasury Division
	D.Sugar	VP, Director of Business Development Division
	R.Batsuren	Director of Audit Division
	Yo.Purevbat	Director of Operations Division
	U.Khosjargal	Director of Channel Management Division
	B.Erdenebayar	Director of Information Technology Division
	J.Khishigjargal	Director of Investment Banking Division

Registered office	Golomt Bank Head Office of Golomt bank Great Chinggis Khaan's Square 5, P.O.Box 22 Ulaanbaatar 15160, Mongolia
Auditors	PWC Audit LLC Central Tower, Floor 6, Suite 601 Great Chinggis Khaan's Square, SDB-8 Ulaanbaatar, 14200, Mongolia

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Golomt Bank LLC

We have audited the accompanying consolidated financial statements of Golomt Bank LLC (the "Bank") and its subsidiary Golomt Securities LLC (together referred to as the "Group") and the separate financial statements of the Bank ("together the financial statements"), which comprise the consolidated and the Bank's statements of financial position as at 31 December 2015 and the consolidated and the Bank's statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, respectively.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance over whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and the Bank's financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers Audit LLC, Central Tower Office Building
Suite 601, Floor 6, Great Chinggis Khaan's Square - 2, Ulaanbaatar 14200, Mongolia
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Opinion

In our opinion, the accompanying consolidated and separate financial statements of the Bank present fairly, in all material respects, the financial position of the Group and the Bank as at 31 December 2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Signed by:

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:

Matthew Pottle
Managing Partner
22 March 2016
Ulaanbaatar, Mongolia

PricewaterhouseCoopers Audit LLC, Central Tower Office Building
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In thousands of Mongolian Tugriks	Note	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Assets					
Cash and balances with central bank (other than mandatory reserve)	7	158,189,289	557,135,627	158,124,287	557,038,818
Mandatory cash balances with the Bank of Mongolia	8	260,739,412	278,718,087	260,739,412	278,718,087
Financial assets at fair value through profit or loss	9	5,442,398	227,942	5,410,038	227,942
Due from other banks	10	349,234,005	267,924,182	349,234,005	267,924,182
Loans and advances to customers	11	2,013,610,787	2,461,920,038	2,013,610,787	2,461,920,038
Investment securities available for sale	12	68,088,050	61,020,731	68,088,050	61,020,731
Investment securities held to maturity	13	594,170,820	290,497,306	592,831,917	290,344,064
Investment properties	14	1,209,050	1,209,050	1,209,050	1,209,050
Investment in subsidiary	15	-	-	1,200,000	200,000
Derivative financial instruments	37	40,207,014	6,086,475	40,207,014	6,086,475
Other assets	16	22,786,957	14,217,002	22,738,029	14,189,348
Current income tax receivable	31	-	162,627	-	162,627
Intangible assets	17	14,740,580	13,809,757	14,735,999	13,809,317
Premises and equipment	18	176,633,646	91,999,909	176,618,746	91,987,116
Repossessed collateral	19	100,094,904	8,315,491	100,094,904	8,315,491
Total assets		**3,805,146,912**	**4,053,244,224**	**3,804,842,238**	**4,053,153,286**
Liabilities					
Due to other banks	20	90,000,670	133,346,664	90,000,670	133,346,664
Customer accounts	21	2,079,828,919	2,232,083,285	2,079,800,594	2,232,269,586
Other borrowed funds	22	1,014,934,955	1,011,499,028	1,014,934,955	1,011,499,028
REPO arrangements	23	174,280,920	251,646,410	174,280,920	251,646,410
Current income tax liability	31	2,014,343	2,930	2,014,312	-
Deferred tax liability	31	3,077,512	3,092,793	3,072,994	3,092,793
Other liabilities	24	12,381,355	27,396,381	12,355,514	27,310,390
Subordinated debt	25	70,060,229	66,248,404	70,060,229	66,248,404
Total liabilities		**3,446,578,903**	**3,725,315,895**	**3,446,520,188**	**3,725,413,275**
Equity					
Preferred shares	26	25,778,900	25,778,900	25,778,900	25,778,900
Share capital	26	26,367,593	26,217,093	26,367,593	26,217,093
Share premium		46,583,557	44,699,421	46,583,557	44,699,421
Retained earnings		247,780,795	222,858,983	247,534,836	222,670,665
Other reserves		12,057,164	8,373,932	12,057,164	8,373,932
Total equity		**358,568,009**	**327,928,329**	**358,322,050**	**327,740,011**
Total liabilities and equity		**3,805,146,912**	**4,053,244,224**	**3,804,842,238**	**4,053,153,286**

Approved for issue and signed on behalf of the Bank's management on 22 March 2016.

CH. MUNKHTSETSEG
Chairwoman, Board of Governors

L. OYUN-ERDENE
Chief Executive Officer

M. CHIMEGMUNKH
Vice President, Director of Financial Management Division

МОНГОЛ УЛС
ГОЛОМТ БАНК
GOLOMT BANK

The notes set out on pages 74 to 151 form an integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of Mongolian Tugriks	Notes	Group		Bank	
		2015	**2014**	**2015**	**2014**
Interest income	27	314,978,219	338,373,380	314,829,554	338,365,925
Interest expense	27	(213,293,561)	(209,311,862)	(213,295,342)	(209,311,862)
Net interest income		**101,684,658**	**129,061,518**	**101,534,212**	**129,054,063**
Provision for loan impairment	11	(49,703,415)	(25,777,881)	(49,703,415)	(25,777,881)
Net interest income after provision for loan impairment		**51,981,243**	**103,283,637**	**51,830,797**	**103,276,182**
Fee and commission income	28	21,438,789	20,476,440	21,044,025	20,241,175
Fee and commission expense	28	(6,949,406)	(6,815,563)	(6,886,011)	(6,748,505)
Gains less losses from financial assets available for sale		-	3,514,764	-	3,514,764
Gains less losses from embedded financial derivatives	25	-	962,305	-	962,305
Gains less losses from financial assets at fair value through profit or loss, including financial derivatives	9, 37	30,796,564	3,320,552	30,796,564	3,320,552
Gains less losses from trading in foreign currencies and precious metals		14,145,897	16,807,266	14,143,685	16,807,266
Foreign exchange translation gains less losses		(5,227,275)	(2,196,297)	(5,235,619)	(2,197,815)
Provision for other assets	16	(1,245,821)	(1,681,412)	(1,245,821)	(1,681,412)
Provision for repossessed collateral	19	(950,575)	(440,287)	(950,575)	(440,287)
Dividend received		213,933	787	213,933	787
Other operating income	29	4,378,078	300,323	4,377,442	296,020
Administrative and other operating expenses	30	(75,792,857)	(73,149,736)	(75,362,030)	(73,068,330)
Profit before tax		**32,788,570**	**64,382,779**	**32,726,390**	**64,282,702**
Income tax expense	31	(6,746,118)	(14,464,553)	(6,741,579)	(14,454,882)
Profit for the year		**26,042,452**	**49,918,226**	**25,984,811**	**49,827,820**
Other comprehensive (loss)/income:					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:		6,539,214	(813,651)	6,539,214	(813,651)
- Gains less losses arising during the year		-	(3,116,008)	-	(3,116,008)
Income tax recorded directly in other comprehensive income		(1,311,457)	-	(1,311,457)	-
Other comprehensive (loss)/income	**32**	**5,227,757**	**(3,929,659)**	**5,227,757**	**(3,929,659)**
Total comprehensive income for the year		**31,270,209**	**45,988,567**	**31,212,568**	**45,898,161**

The notes set out on pages 74 to 151 form an integral part of these financial statements.

GOLOMT BANK

Consolidated Statement of Changes in Equity

		Attributable to owners of the Group							
In thousands of Mongolian Tugriks	Note	Preferred shares	Share capital	Share premium	Share-based payment reserve	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings	Total equity
At 31 December 2013		**16,388,100**	**25,907,593**	**42,322,298**	**2,343,137**	**3,282,966**	**8,212,178**	**173,488,603**	**271,944,875**
Profit for the year		-	-	-	-	-	-	49,918,226	**49,918,226**
Other comprehensive income	32	-	-	-	-	(3,929,659)	-	-	**(3,929,659)**
Total comprehensive income for 2014		**-**	**-**	**-**	**-**	**(3,929,659)**	**-**	**49,918,226**	**45,988,567**
Issue of preferred shares	26	9,390,800	-	-	-	-	-	-	**9,390,800**
Share issue through options exercise	26	-	309,500	2,377,123	(1,500,000)	-	-	-	**1,186,623**
Share-based payments		-	-	-	333,349	-	-	-	**333,349**
Dividends declared and paid	33	-	-	-	-	-	-	(915,885)	**(915,885)**
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	-	(368,039)	368,039	**-**
Balance at 31 December 2014		**25,778,900**	**26,217,093**	**44,699,421**	**1,176,486**	**(646,693)**	**7,844,139**	**222,858,983**	**327,928,329**
Profit for the year		-	-	-	-	-	-	26,042,452	**26,042,452**
Other comprehensive income	32	-	-	-	-	5,227,757	-	-	**5,227,757**
Total comprehensive income for 2015		**-**	**-**	**-**	**-**	**5,227,757**	**-**	**26,042,452**	**31,270,209**
Share issue through options exercise	26	-	150,500	707,650	-	-	-	-	**858,150**
Reversal of share-based payment reserve		-	-	1,176,486	(1,176,486)	-	-	-	**-**
Dividends declared and paid	33	-	-	-	-	-	-	(1,488,679)	**(1,488,679)**
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	-	(368,039)	368,039	**-**
Balance at 31 December 2015		**25,778,900**	**26,367,593**	**46,583,557**	**-**	**4,581,064**	**7,476,100**	**247,780,795**	**358,568,009**

The notes set out on pages 74 to 151 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

		Attributable to owners of the Bank							
In thousands of Mongolian Tugriks	Note	Preferred shares	Share capital	Share premium	Share-based payment reserve	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings	Total equity
At 31 December 2013		**16,388,100**	**25,907,593**	**42,322,298**	**2,343,137**	**3,282,966**	**8,212,178**	**173,390,689**	**271,846,961**
Profit for the year		-	-	-	-	-	-	49,827,820	49,827,820
Other comprehensive income	32	-	-	-	-	(3,929,659)	-	-	(3,929,659)
Total comprehensive income for 2014		**-**	**-**	**-**	**-**	**(3,929,659)**	**-**	**49,827,820**	**45,898,161**
Issue of preferred shares	26	9,390,800	-	-	-	-	-	-	9,390,800
Share issue through options exercise	26	-	309,500	2,377,123	(1,500,000)	-	-	-	1,186,623
Share-based payments		-	-	-	333,349	-	-	-	333,349
Dividends declared and paid	33	-	-	-	-	-	-	(915,885)	(915,885)
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	-	(368,039)	368,039	-
Balance at 31 December 2014		**25,778,900**	**26,217,093**	**44,699,421**	**-**	**(646,693)**	**7,844,139**	**222,670,665**	**327,740,011**
Profit for the year		-	-	-	-	-	-	25,984,811	25,984,811
Other comprehensive income	32	-	-	-	-	5,227,757	-	-	5,227,757
Total comprehensive income for 2015		**-**	**-**	**-**	**-**	**5,227,757**	**-**	**25,984,811**	**31,212,568**
Share issue through options exercise	26	-	150,500	707,650	-	-	-	-	858,150
Reversal of share-based payment reserve		-	-	1,176,486	(1,176,486)	-	-	-	-
Dividends declared and paid	33	-	-	-	-	-	-	(1,488,679)	(1,488,679)
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	-	(368,039)	368,039	-
Balance at 31 December 2015		**25,778,900**	**26,367,593**	**46,583,557**	**-**	**4,581,064**	**7,476,100**	**247,534,836**	**358,322,050**

The notes set out on pages 74 to 151 form an integral part of these financial statements.

Consolidated Statement of Cashflows

In thousands of Mongolian Tugriks	Note	Group 2015	Group 2014	Bank 2015	Bank 2014
Cash flows from investing activities					
Profit before tax		**32,788,570**	**64,382,779**	**32,726,390**	**64,282,702**
Adjustments to:					
Impairment provision for loans and advances to customers	11	49,703,415	25,777,881	49,703,415	25,777,881
Gains less losses from financial assets available for sale		-	(3,514,764)	-	(3,514,764)
Gains less losses from embedded derivatives		-	(962,305)	-	(962,305)
Gains less losses from financial assets at fair value through profit or loss	9, 37	(30,796,564)	(3,320,553)	(30,796,564)	(3,320,552)
Gain on disposal of properties		(636)	(24,860)	-	(24,860)
Foreign exchange (gains)/losses		5,227,275	2,196,164	5,235,619	2,197,815
Provision for other assets	16	1,245,821	1,681,412	1,245,821	1,681,412
Depreciation expense	18	9,252,991	7,287,927	9,248,578	7,279,031
Amortisation expense	17	4,503,962	1,975,004	4,499,708	1,974,395
Property and equipment written off	18	315,510	17,537	315,510	17,537
Impairment provision for repossessed collateral	19	950,575	440,287	950,575	440,287
Non cash dividend received		213,933	-	213,933	-
Share-based payment expense		-	333,349	-	333,349
Interest income	27	(314,978,219)	(338,373,380)	(314,829,554)	(338,365,925)
Interest expense	27	213,293,561	209,311,862	213,295,342	209,311,862
Cash flows used in operating activities before changes in operating assets and liabilities		**(28,279,806)**	**(32,791,660)**	**(28,191,227)**	**(32,892,135)**
(Increase)/decrease in mandatory cash balances with the Bank of Mongolia		17,978,675	(18,908,544)	17,978,675	(18,908,544)
Increase in due from other banks		(199,047,369)	(567,921)	(199,047,369)	(567,921)
(Increase)/decrease in loans and advances		(155,404,681)	(230,225,070)	(155,404,681)	(230,223,419)
Increase in other assets		(10,844,015)	(930,258)	(9,794,501)	(913,189)
Increase/(decrease) in due to banks		(42,629,867)	107,239,362	(42,629,867)	107,239,362
Increase/(decrease) in customer account		(162,408,755)	40,474,732	(162,408,755)	40,316,695
Increase/(decrease) in other liabilities		(14,994,007)	7,698,081	(14,954,876)	7,688,923
Net cash used in operating activities before tax and interest		**(595,629,825)**	**(128,011,278)**	**(594,452,601)**	**(128,260,228)**
Tax paid		(4,552,279)	(13,725,467)	(4,544,841)	(13,715,796)
Interest received		281,427,485	304,502,728	281,258,500	304,495,273
Interest paid		(204,155,776)	(210,928,757)	(204,153,925)	(210,928,757)
Net cash used in operating activities		**(522,910,395)**	**(48,162,774)**	**(521,892,867)**	**(48,409,508)**

Consolidated Statement of Cashflows

In thousands of Mongolian Tugriks	Note	Group 2015	Group 2014	Bank 2015	Bank 2014
Cash flows from investing activities					
Acquisition of financial investments		(96,781,862)	(141,049,957)	(97,781,862)	(140,899,816)
Proceeds from disposal of financial investments		41,638,772	203,613,767	41,638,772	203,613,767
Acquisition of premises and equipments		(94,013,459)	(47,139,930)	(93,996,055)	(47,139,732)
Proceeds from disposal of premises and equipments	18	445,997	529,662	434,477	529,464
Acquisition of intangible asset	17	(5,434,784)	(11,146,410)	(5,426,390)	(11,146,410)
Net cash from/(used in) investing activities		**(154,145,336)**	**4,807,132**	**(155,131,058)**	**4,957,273**
Cash flows from financing activities					
Proceeds from issuance of shares		858,150	10,577,423	858,150	10,577,423
Proceeds from repo arrangements		1,067,333,211	3,455,153,703	1,067,333,211	3,455,153,703
Repayment of repo arrangements		(1,144,599,240)	(3,370,788,571)	(1,144,599,240)	(3,370,788,570)
Proceeds from drawdown of other borrowed funds		664,996,429	485,447,395	664,996,430	485,447,395
Repayment of other borrowed funds		(224,354,043)	(512,068,364)	(224,354,043)	(512,068,364)
Dividend paid	33	(1,488,678)	(915,885)	(1,488,678)	(915,885)
Net cash from financing activities		**362,745,829**	**67,405,701**	**362,745,830**	**67,405,702**
Effect of exchange rate changes on cash and cash equivalents		2,821,108	-	2,821,108	-
Net increase in cash and cash equivalent		**(311,488,794)**	**24,050,059**	**(311,456,987)**	**23,953,467**
Cash and cash equivalents at the beginning of the period		1,043,738,406	1,019,688,347	1,043,641,597	1,019,688,130
Cash and cash equivalents at the end of the period	**7**	**732,249,612**	**1,043,738,406**	**732,184,610**	**1,043,641,597**

Refer to Notes 3 and 13 for information on the MIK-SPC transactions that did not require the use of cash and cash equivalents and were excluded from the Statement of Cash Flows.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2015 for Golomt Bank ("the Bank") and its subsidiary Golomt Securities LLC ("the Group").

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

Mr. Bayasgalan D., the owner of Golomt Financial Group as of 31 December 2015, represents the ultimate controlling party of the Bank as of 31 December 2015 and 31 December 2014.

The Bank's shareholders as of 31 December 2015 and 31 December 2014 are disclosed in Note 26.

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

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

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

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

As at 31 December 2015 the Bank had 71 branches within Mongolia (31 December 2014: 70 branches). Also, as at 31 December 2015 the Bank had 26 sub-branches (31 December 2014: 28 sub-branches).

The number of Bank employees as at 31 December 2015 was 1872 (31 December 2014: 1,862).

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

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

The Subsidiary obtained State Registration Certificate No. 9011287134 with registration No.5481589 issued by the State Registration Office of Mongolia on 2 November 2011. The Subsidiary holds the Special License No. 3/97 for Capital Market Activities in accordance with Resolution No. 317 dated 2 November 2011 issued by the Financial Regulatory Commission of Mongolia.

The principal activities of the Subsidiary include:

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

2 Operating Environment of the Group

2.1 General

The Mongolian economy displays many characteristics of an emerging market, including non-convertibility of the national currency to foreign currencies, as well as relatively high interest rates. For most of the international investors Mongolia is considered a less developed nation with growth potential. After recording steady growth in 2010 and 2011, the Mongolian economy has shown signs of a slowdown in 2012 and 2013 due to declining global commodities prices, concerns over slowing growth in China and changes to the Mongolian Foreign Investment Law made in 2012 which have slowed inbound foreign investment into the country. The slowdown of the economy continued in 2014 resulting in the country being downgraded from B1 to B2 by Moody's rating agency in July 2014, and subsequent downgrade of major commercial banks from B1 to B2 and B3. The economy is further adversely affected by significant decline in global commodity prices that took place in the last quarter of 2014 and 2015, and further slowdown of the Chinese economy during 2014 and 2015. On 3 November 2015 the country's rating was downgraded from "B+/B" by Standard and Poor's Rating Services with "negative" outlook to "B/B" with "stable" outlook.

On 3 October 2013, the Mongolian Parliament passed the Law on Investment and the Law on Implementation of the Law on Investment (effective from 1 November 2013). Following the issuance of the new laws, the Law on Foreign Investment and the Strategic Entities Foreign Investment Law (SEFIL) were cancelled. The purpose of the new Law on Investment is to protect the legitimate rights and interests of the investors in the territory of Mongolia, establish the common legal guarantee for investment, support investment, stabilize tax environment, determine the powers of the state organizations, and rights and obligations of the investor and regulate other relations concerning investments.

The Government of Mongolia is currently trying to implement reforms, such as new debt management law, economic transparency law, cost reduction and enhancement of labor productivity and competitiveness of national products on international markets. In addition, the Government of Mongolia is trying to support foreign investments and improve the business environment. Despite the commitment of the government, implementation risks to policy reforms are high as the next election approaches. Rio Tinto's Oyu Tolgoi expansion project received a boost in December 2015, when a syndicate of banks and representatives of international governments agreed the financing of the expansion project. Developments in the big mining projects could see a strong inflow of foreign direct investment into the country, boosting investor confidence, increasing export revenues and laying the foundations for renewed growth in the medium term. The struggle to find the optimal path in making use of abundant resources has become a big challenge for Mongolia. In case of success, not only the lives of its citizens will naturally be improved, but also the Mongolian economy will be able to provide a stable and fair business environment for investors.

What policies the government of Mongolia will undertake in order to stabilize the economy remain to be seen, but the future of the Mongolian economy is significantly dependent upon the effectiveness of fiscal and monetary policy. In 2016, Mongolian fiscal and monetary policy will focus on providing macroeconomic balance, implementing appropriate fiscal policies to keep budget with no deficit, increasing foreign currency inflow into Mongolia to achieve balance of payment stability and implementing appropriate debt management to strengthen economic stabilization and create an environment for balanced and sustainable medium to long term economic growth.

The legal, tax and regulatory frameworks continue to develop and frequent changes are being made. In particular, the tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes (refer to Note 36). The future economic performance of Mongolia is tied to the continuing demand from China and prices for commodities and is also dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government together with tax, legal regulatory and political developments.

Current uncertainty in world economics, volatility of financial markets, decline in global prices of commodities, slowdown of growth of Chinese economy, slowdown of Mongolian economy and other potential risks could have a significant negative effect on Mongolian financial and corporate sectors. In accordance with IFRS, the Bank's management has determined loan impairment provisions using the "incurred loss" model. Recognition of impairment losses that arose from past events is required and the recognition of impairment losses that could arise from future events is prohibited. These future events include for example future changes in the economic environment. Impairment losses that could arise from future events cannot be recognized, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions.

2 Operating Environment of the Group (continued)

2.1 General (continued)

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

2.2 Currency transactions

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

Date	USD	EUR
31 December 2015	1,995.98	2,182.70
31 December 2014	1,885.60	2,293.36
31 December 2013	1,654.10	2,275.63
31 December 2012	1,392.10	1,835.83
31 December 2011	1,396.37	1,806.76
31 December 2010	1,256.47	1,662.31

3 Basis of presentation

3.1 General principles

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

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

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

3.2 Functional and presentation currency

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

3.3 Critical accounting estimates and judgments in applying accounting policies

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

(i) Impairment losses on loans and advances

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

A 20% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of MNT 19,018,891 thousand (2014: MNT 15,396,332 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

(ii) Revaluation of premises and investment properties

The Group uses revaluation model for its premises and fair value model for investment properties. The Group engaged independent valuation specialists to determine fair value of its newly acquired head office building as at 31 December 2015 and remaining premises were revalued by independent valuation specialists as at 31 December 2013.

The basis used for the appraisal was market value for premises and investment properties based on comparable market data. For total fair value of the Group's premises and investment properties as of 31 December 2014 and 31 December 2015, based on observable market prices in the active market, refer to Notes 14 and 18.

Based on the assessment of conditions on the Mongolian real estate market as of 31 December 2015, and other available information affecting the value of the Group's premises and investment properties, including impact of current developments in operating environment in Mongolia (Note 2), management believes there were no significant movements in the market value of the Group's buildings as of 31 December 2015 compared to 31 December 2014. Further, significant acquisitions of buildings in 2015 relate to purchases of buildings done on an arm-length basis, which are therefore reflective of actual market prices effective during 2015 and as of the end of reporting period.

If average prices of premises would be 10% higher/(lower) compared to the current carrying value, carrying value of buildings would increase/(decrease) by approximately MNT 14,541,873 thousand as of 31 December 2015 (31 December 2014: MNT 5,992,900 thousand). The impact of changes in prices of investment properties is unlikely to be material.

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

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

3 Basis of presentation (continued)

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

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

The borrowings from international financial institutions or governments organizations and the Bank of Mongolia meeting the above criteria amounted to MNT 478,754,724 thousand as at 31 December 2015 (31 December 2014: MNT 965,964,085 thousand) and are disclosed in Note 22.

As disclosed in Note 22, under the program for financing the construction sector, the Bank is obliged to use received funds for issuance of loans that meet specific criteria (companies engaged in construction of apartment buildings, specific ratio criteria set by the Bank of Mongolia). The Bank has discretionary rights to determine interest rates on loans issued to customers under this program, and interest rates on related loans to customers are not significantly different from market interest rates for construction loans, i.e. from interest rates on loans issued from the Bank's other lending sources. As a result, the above funding meets the condition of government grant in accordance with IAS 20 due to existence of specific conditions (specific criteria for lending, requirement of return and paying higher interest for unused portion, BOM representing extension of the Government of Mongolia etc.). Management made a judgment that the policy rate of the Bank of Mongolia of 10.5% p.a. at the time of origination of these borrowings represents the best approximation of market interest rate on MNT funding. The details on this arrangement and amounts of government grants as of 31 December 2015 and 31 December 2014 are disclosed in Note 22.

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

During 2015, the Bank participated in four tranches of MIK securitisation transaction. The Bank sold the 8% mortgage loans to MIK SPC4, MIK SPC5, MIK SPC6 and MIK SPC7, special purpose companies wholly owned by the Mongolian Mortgage Corporation LLC ("MIK") for which it received residential mortgage-backed securities (RMBS) Senior RMBS notes bearing interest at 4.5% and Junior RMBS notes bearing interest at 10.5%. The loans have been purchased by abovementioned MIK-SPCs on a non-recourse basis. The principal of the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. The Bank has been appointed as the Servicer of the respective loans sold, and receives a service fee of 2.5% on amount collected for performing this service. Residual net assets in MIK-SPCs, if any, belong to the shareholder of MIK-SPC i.e. MIK. On the other hand, any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority) with no recourse to MIK. As part of this agreement the Senior RMBS notes obtained by the Bank were used to repay the 4% funding received from the Bank of Mongolia for financing the original 8% mortgage lending.

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

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

(v) Investment in Investment Fund

As disclosed in Note 12, the Bank has invested in the first investment fund established in Mongolia in late December 2014. As of 31 December 2015 the Bank owns 10% of investment units of this Fund, while 90% of investment units have not been yet sold as of the date of approval of these financial statements. Management has assessed that it does not have either control or significant influence on the operating and financial decisions and activities of the Fund, and therefore this investment is classified as investment available for sale in accordance with IAS 39 requirements. In making this judgment, management has considered the following:

- the Fund is managed by managing company which is not related to the Bank's owners or management, and the Bank has no right or ability to replace the managing company as of 31 December 2015;
- the managing company of the Fund is actively seeking additional investors for remaining 90% units in present, and if additional investors are

not found, it is unlikely that the Fund would continue operating;

- further, by the contract and the law, Golomt Bank and other investors are prohibited to influence the decision and operation of management company's investment fund and influence its independence;
- maximum loss that Golomt Bank can make is to lose its own invested money, but there are no guarantees or obligations to cover losses of other investors. In terms of returns, they are related to Golomt Bank's own purchased investment units i.e the Bank is not entitled to any rewards related to the investment made by other investors;
- the Bank is not involved in approving investments made by the fund and the managing company of the fund can decide to make investment in other types of assets, and no approval of the Bank is needed for such decision.

(vi) Going concern

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

These financial statements were prepared on a going concern assumption. The Group's liquidity position and information on the management of liquidity risk is described in Note 34. For prompt management of the liquidity risk the Group regularly monitors external factors, which could influence the Group's liquidity level, and forecasts cash flows. For the medium and long-term liquidity risk management the Group analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Group sets liquidity gap limits. The set limits are periodically reviewed due to the changing external and internal environment.

To maintain the required liquidity level the Group and the Bank can attract additional funds from the Central Bank of Mongolia and in the interbank market. Diversification of liquidity sources minimizes the Group's dependence on any source and ensures full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Group and the available sources of additional fund-raising allow the Group to continue its operations as a going concern on a long term basis. Further, as disclosed in Note 34, substantial portion of customer demand accounts and savings accounts represent stable long-term source of financing, based on the past experience. In addition, in making the judgement that the Group will continue as a going concern in the foreseeable future, management considered sufficient capitalisation of the Group (Note 35), availability of financing from its parent company, including possibilities for extension of maturity of subordinated debt, substantial amount of liquid financial assets, which can be realised within one month, as well as other factors disclosed in detail in Note 34.

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

Gains and losses arising from the changes in fair value of derivatives are not regulated by the current tax legislation or by the supporting supplementary tax regulations. The current legislation only regulates the tax treatment of foreign exchange gains and losses generally. Based on the Corporate Income Tax Law realized foreign exchange gains are taxable, realized foreign exchange losses are deductible, while taxation of unrealized foreign exchange gains and losses is deferred until the period in which they become realized. As a result, unrealized gains or losses arising from the changes in fair value of financial derivatives are treated as non-taxable income and non-deductible expenses until they become realized, thus creating a taxable or deductible temporary difference. As a result, net deferred tax liability of MNT 10,051,754 thousand is recognized as of 31 December 2015 (31 December 2014: MNT 1,521,619 thousand), refer to Note 31.

In making this judgment management considered IFRS principles, nature of transactions, tax legislation governing similar transactions (such as tax treatment of gains and losses arising from foreign currency transactions and translation of financial assets denominated in foreign currency), current practices of tax authorities, including results of previous tax inspections, and practices applied in the banking sector, including practicability of differentiation between realized and unrealized gains and losses. Given that tax legislation and supporting regulations do not explicitly address tax treatment of the realized and unrealized gains and losses from financial derivatives and require differentiation of unrealized and realized foreign exchange gains on all financial assets and liabilities for tax purposes, management has assessed the risk that tax authorities may take different position and treat unrealized gains from open derivative positions as taxable income or otherwise challenge the Group's accounting policy (Note 4) and tax treatment and impose additional tax obligation. However, based on all available information at the date of issuance of this financial, management believes that such risk is remote. For more details on income tax, refer to Note 31. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 36.

3 Basis of presentation (continued)

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

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

Apart from assessing impairment provision in accordance with IFRS requirements, the Bank determines impairment provision for the purposes of reporting to the Bank of Mongolia (central bank) based on classification of loans based on provisioning guidelines in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the Bank of Mongolia and the Ministry of Finance. In accordance with these regulations, the Bank is required to determine the quality of loans and advances based on quantitative and qualitative factors. Quantitative factors include time characteristics, including past due status (i.e. delays in repayment). Loans are classified as follows: Performing, In Arrears, and Non-Performing. Non-performing loans are further classified as Sub-Standard, Doubtful and Loss. Each category requires a specific reserve percentage. According to tax regulation on corporate income tax any impairment provision charges for the performing loans represent non-deductible expenses for the period. As in previous periods the Bank has determined impairment provision on performing loans as of 31 December 2015, as a part of its assessment of impairment provision in accordance with IFRS requirements, and treated related impairment provision charges as non-deductible expenses. In addition, given that impairment provision per Bank of Mongolia which is tax deductible expense is lower than IFRS provision, management expects that additional provision per IFRS (based on incurred losses model) will be included in Bank of Mongolia provision in the future periods and thus will be treated as tax deductible expenses. Management has performed detailed review of the accounting and tax treatment of charges and releases of impairment provision on performing loans as well as tax impact of difference between Bank of Mongolia and IFRS provision and has concluded that such items represent temporary differences and thus related deferred tax asset of MNT 11,495,335 thousand (31 December 2014: MNT 808,016 thousand) has been recognized in these financial statements.

Management's view is that income from release of provision on performing loans represents non-taxable income and that related deferred tax asset is recoverable in the future. Given that tax regulations do not explicitly address tax treatment of income from release of provision on performing loans and that Mongolian tax regulations can be subject to different interpretations (refer to Note 36), management has assessed the risk that tax authorities may take different position and treat income from release of impairment provision as taxable income, in which case recognized deferred tax asset would not be recoverable. However, based on all available information at the date of issuance of these financial statements, management believes that such risk is remote.

Similarly, in accordance with the abovementioned regulations of the Bank of Mongolia, interest income on loans overdue more than 90 days should not be recognized in the Bank's profit or loss account, which is not in line with IFRS treatment. As tax authorities follow the regulations of the Bank of Mongolia when assessing taxable income and tax deductible expenses, related interest income, recognized in these financial statements in accordance with IFRS, is treated as non-taxable income of the current period and represents a temporary difference, as related amounts would be taxed in the future when related interest income is collected and recognized as taxable income in tax returns. As a result, the Bank has recognized deferred tax liability of MNT 5,143,512 thousand as of 31 December 2015 (31 December 2014: MNT 3,941,902). Management has assessed the risk that tax authorities may take different position and treat related interest income as taxable income or otherwise challenge the Group's tax treatment and impose additional tax obligation. However, based on all available information at the date of issuance of this financial information, including current practices of tax authorities, results of previous tax inspections, and practices applied in the Mongolian banking sector, management believes that such risk is remote.

For more details on income tax, refer to Note 31. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 36.

4 Summary of significant accounting policies

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

4.1 Consolidation

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

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

4.2 Financial assets

The Group classifies its financial assets in the following categories:

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

For presentation of financial assets by measurement category refer to Note 39.

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

(i) Key measurement terms

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

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 38.

4 Summary of significant accounting policies (continued)

4.2 Financial assets (continued)

(i) Key measurement terms (continued)

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

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

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

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

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

(ii) Initial recognition of financial assets

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

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

(iii) Derecognition of financial assets

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

4.3 Foreign currency transactions

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

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

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

	2015	2014
Mongolian national Tugriks/US Dollar		
At 31 December	1,995.98	1,885.60
Mongolian national Tugriks/EURO		
At 31 December	2,182.70	2,293.36
Mongolian national Tugriks/British Pound Sterling		
At 31 December	2,957.54	2,927.58
Mongolian national Tugriks/Chinese Yuan		
At 31 December	307.54	303.57
Mongolian national Tugriks/Russian Ruble		
At 31 December	27.40	33.25

4.4 Cash and cash equivalents

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

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

4.5 Mandatory cash balances with the Central Bank of Mongolia

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

4.6 Financial assets at fair value through profit or loss

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

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

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

4 Summary of significant accounting policies (continued)

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

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

Certain derivative instruments embedded in other financial instruments, such as subordinate debt agreements, are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract. Refer to Note 25. Changes in fair value of these embedded derivatives are presented in the separate line in the Consolidated Statement of profit or loss and other comprehensive income.

4.7 Due from other banks

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

4.8 Loans and advances to customers

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

4.9 Investments securities held to maturity

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

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

4.10 Investment securities available for sale

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

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

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

4.11 Promissory notes purchased

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

4.12 Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

4 Summary of significant accounting policies (continued)

4.12 Impairment of financial assets (continued)

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review by the management. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

4.13 Offsetting

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

4.14 Financial liabilities carried at amortised cost

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

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

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

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

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

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

Subordinated debts - Subordinated debts are carried at amortized cost using the effective interest rate method. When subordinated debt agreements contain conversion options that meet definition of embedded derivative, these derivatives are separately valued at each reporting date and the change in fair value of derivatives is recognised in profit or loss account. Refer to Note 25.

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

4.15 Repurchase and reverse repurchase agreements

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

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

4.16 Premises and equipment

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

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

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

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

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

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

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

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

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

4.17 Investment property

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

4 Summary of significant accounting policies (continued)

4.17 Investment property (continued)

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

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

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

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

4.18 Intangible assets

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

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

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

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

4.19 Operating leases

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

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

4.20 Share capital, including preferred shares

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

4.21 Share premium

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

4.22 Dividends

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

4.23 Contingent assets and liabilities

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

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

4.24 Credit related commitments

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

4.25 Provisions

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

4.26 Government grants

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

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

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

4.27 Fiduciary Assets

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

4.28 Taxation

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

4 Summary of significant accounting policies (continued)

4.28 Taxation (continued)

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

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

Certain changes in value of foreign exchange derivatives represent unrealized gains and losses, and are therefore treated as temporary differences (Notes 3 and 31). Foreign currency translation differences arising from all other financial assets and liabilities are recognized within foreign exchange gains less losses and do not give rise to temporary differences.

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

4.29 Employee benefits and social contributions

(i) Short term benefits

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

(ii) Defined contribution plans

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

4.30 Income and expense recognition

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

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

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

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

4.31 Repossessed collateral

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

In case of non-financial assets, if the Group's management makes decision to use acquired immovable property for in its own business activities, the Group reclassifies repossessed collateral such as premises to line 'Premises and Equipment' and account for it in accordance with the accounting policy for property and equipment (Note 4.16). If the Group decides to keep premises in its ownership in order to earn rental income or for capital appreciation, or both, and not to occupy premises by the Group, the Group reclassifies repossessed collateral to line 'Investment property' and accounts for it in accordance with the accounting policy for investment property (Note 4.17). In case the Group makes decision to sell its movable and/or immovable properties acquired as repossessed collateral, the Group applies the accounting policy for inventories and keep them in line 'Repossessed collateral' on the face of the Statement of financial position unless IFRS 5 criteria are met and these assets represent assets held for sale. For details on non-financial repossessed assets, which are planned to be sold, refer to Note 19.

In case of repossessed collateral in the form of financial asset such as securities, which value will be recovered through sale, the Group recognises them within line 'Repossessed collateral' and classifies them for IFRS measurement purposes as securities available for sale and measures them at fair value. Fair value of repossessed financial collateral (securities) is determined on each reporting date and changes in fair value recognised within 'Revaluation reserve for AFS securities' within equity. The accounting policy relevant for financial assets available for sale is given in Note 4.10. For details on financial repossessed assets, refer to Note 19.

4.32 Inventories

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

4.33 Renegotiated loans

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

4.34 Share-based payments

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

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

4 Summary of significant accounting policies (continued)

4.35 Amendments of the financial statements after issue

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

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2015:

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition and to define separately ' performance condition and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.
Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Bank has not early adopted.

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

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

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

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

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

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

6 New Accounting Pronouncements (continued)

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the trans-action price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Group believes that the amendment would not have impact on its consolidated financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group believes that amendments would not have significant impact on its consolidated financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the improvements on its consolidated financial statements.

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

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.
IFRS 16 Leases (issued in January 2016 and is effective for annual periods on or after 1 January 2019). The standard supersedes IAS 17 Leases, IFRIC 14 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal form of a Lease. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017) The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax assets arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

7 Cash and Cash Equivalents

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

In thousands of Mongolian Tugriks	Group 31 December 2015	 31 December 2014	Bank 31 December 2015	 31 December 2014
Cash on hand	91,866,379	100,664,369	91,801,377	100,567,560
Current account with the Bank of Mongolia (other than mandatory reserve)	66,322,910	456,471,258	66,322,910	456,471,258
Cash and cash balances with central bank	**158,189,289**	**557,135,627**	**158,124,287**	**557,038,818**

Cash and balances with central bank (other than mandatory reserve) are not collateralised. All amounts are neither past due nor impaired as of 31 December 2015 and 31 December 2014. The Bank of Mongolia has a B2 rating from Moody's.

Currency, interest rate and maturity analysis of Cash and balances with central bank (other than mandatory reserve) are disclosed in Note 34.

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

Cash and cash equivalents

In thousands of Mongolian Tugriks	Group 31 December 2015	 31 December 2014	Bank 31 December 2015	 31 December 2014
Cash and balances with the central banks (Note 7)	158,189,289	557,135,627	158,124,287	557,038,818
Due from banks (Note 10)	149,605,676	267,284,933	149,605,676	267,284,933
Bank of Mongolia treasury bills (Note 13)	424,454,647	209,591,218	424,454,647	209,591,218
Government treasury bills (Note 13)	-	9,726,628	-	9,726,628
Total cash and cash equivalents	**732,249,612**	**1,043,738,406**	**732,184,610**	**1,043,641,597**

8 Mandatory reserves with the Bank of Mongolia

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Mandatory cash balances with the Bank of Mongolia	260,739,412	278,718,087
Mandatory cash balances with the Bank of Mongolia	**260,739,412**	**278,718,087**

8 Mandatory reserves with the Bank of Mongolia (continued)

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% (2014: 12.0 %) of customer deposits for a period of 2 weeks. As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

9 Financial assets at fair value through profit or loss

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

Below is the information on changes in the portfolio of financial assets at fair value through profit and loss during the years ended 31 December 2015 and 31 December 2014:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Fair value as at 1 January	**227,942**	**184,554**	**227,942**	**184,554**
Acquisitions	8,629,537	99,218	8,597,177	99,218
Disposals of financial assets at FVTPL	(693,695)	-	(693,695)	-
Effect of exchange rate changes	282,309	159,142	282,309	159,142
Fair value loss from change in net market value	(3,003,695)	(214,972)	(3,003,695)	(214,972)
Fair value as at 31 December	**5,442,398**	**227,942**	**5,410,038**	**227,942**

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

In 2015, the Bank acquired shares of Turquoise Hill Resources Ltd listed in the New York Stock Exchanges for USD 4,408 thousand. During the year, the Bank recognized losses of MNT 2,878,574 thousand from change in market value of these shares.

10 Due from Other Banks

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Correspondent accounts with other banks		
Domestic	14,294,479	12,050,621
Foreign	334,909,197	179,606,349
Short term placements of other banks		
Domestic	-	75,658,290
Foreign	-	-
Placements with other banks with original maturities of more than three months	30,329	608,921
Total due from other banks	**349,234,005**	**267,924,182**

Correspondent accounts with other banks include current account of USD 100 million with a foreign bank, pledged as collateral for the loan obtained from this bank (Note 22 and Note 36). Other amounts due from other banks are not collateralized. The credit ratings are based on Standard & Poor's ratings where available, or Moody's and/or Fitch rating converted to the nearest equivalent on the Standard & Poor's rating scale. Analysis by credit quality of amounts due from other banks outstanding is as follows:

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Neither past due nor impaired		
AA	72,182,743	-
AA-	1,559,383	57,294,804
A+	13,117,265	7,985,477
A	19,186,352	74,676,504
A-	246,998	25,151,220
BBB+	214,492,075	4,426,915
BBB	438,100	3,626,232
BBB-	138,566	-
BB+	-	245,882
BB	2,416,949	3,756,909
B+	-	88,779,886
B	14,261,918	-
Unrated	11,193,656	1,980,353
Total neither past due nor impaired	**349,234,005**	**267,924,182**

Correspondent accounts and placements with unrated banks relate to medium-sized Mongolian and International banks. Management assesses the credit quality of placements with unrated banks based on its general reputation and other available information (such as publicly available financial statements). Currency, interest rate and maturity analysis of due from other banks are disclosed in Note 34.

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

11 Loans and Advances to Customers

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Corporate loans	1,205,437,537	1,164,191,875
Loans to small and medium business	461,558,818	554,558,265
Consumer loans to individuals	194,024,822	197,177,121
Mortgage loans to individuals	247,684,064	622,974,437
Total gross loans and advances to customers	**2,108,705,241**	**2,538,901,698**
Less: Provision for loan impairment	(95,094,454)	(76,981,660)
Total loans and advances to customers	**2,013,610,787**	**2,461,920,038**

The aggregate amount of loans to the 30 biggest customers amounted to MNT 886,299,597 thousand (31 December 2014: MNT 814,405,751 thousand) and represents 41.9% (31 December 2014: 31.9%) of total loans and advances to customers at 31 December 2015. As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

11 Loans and Advances to Customers (continued)

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

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

Movements in the provision for loan impairment during 2014 are as follows:

In thousands of Mongolian Tugriks	Corporate	Consumer	SME	Mortgage	Total
Provision for loan impairment at 1 January 2014	**45,841,017**	**2,063,664**	**9,430,834**	**219,538**	**57,555,053**
(Recovery of)/provision for impairment during the year	10,565,749	397,569	13,763,027	1,051,536	**25,777,881**
Exchange difference	362,555	727,828	1,734,277	-	**2,824,660**
Amounts written off during the year as uncollectible	(7,588,441)	(317,281)	(1,237,783)	(32,429)	**(9,175,934)**
Provision for loan impairment at 31 December 2014	**49,180,880**	**2,871,780**	**23,690,355**	**1,238,645**	**76,981,660**

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

	2015		2014	
In thousands of Mongolian Tugriks	Amount	%	Amount	%
Mortgage & House maintenance.	247,684,064	11.75%	622,974,437	24.54%
Manufacturing	405,779,805	19.24%	392,218,432	15.45%
Mining & Exploration	317,435,450	15.05%	264,470,798	10.42%
Construction	252,836,499	11.99%	242,971,931	9.57%
Trade - Whole & Retail	226,603,476	10.75%	210,326,761	8.28%
Salary & Consumption	188,046,423	8.92%	180,584,629	7.11%
Electricity & Oil	94,299,062	4.47%	150,886,448	5.94%
Real estate	84,369,105	4.00%	98,224,022	3.87%
Finance	61,402,508	2.91%	81,665,181	3.22%
Agriculture	63,806,431	3.03%	64,061,373	2.52%
Transport & Communication	33,417,701	1.58%	57,849,209	2.28%
Tourism	27,276,789	1.29%	42,726,221	1.68%
Infrastructure	18,485,159	0.88%	26,231,413	1.03%
Maintenance	23,080,842	1.09%	24,489,574	0.96%
Healthcare	19,417,976	0.92%	20,368,107	0.80%
Hotel & Restaurant	15,204,794	0.72%	20,063,947	0.79%
Social services	19,960,309	0.95%	18,203,961	0.72%
Home appliances	2,155,270	0.10%	9,686,200	0.38%
Car and vehicles	3,823,128	0.18%	6,904,957	0.27%
Education	2,617,177	0.12%	2,988,761	0.12%
Public service	331,831	0.02%	517,260	0.02%
Entrepreneurship	606,498	0.03%	484,860	0.02%
International organisations	64,944	0.00%	3,216	0.00%
Total loans and advances to customers (before impairment)	**2,108,705,241**	**100%**	**2,538,901,698**	**100%**

Information about collateral at 31 December 2015 is as follows:

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

Information about collateral at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	**Corporate**	**Consumer**	**SME**	**Mortgage**	**Total**
Loans collateralised by:					
- residential real estate	328,300,175	3,512,426	280,022,814	593,221,812	1,205,057,227
- other real estate	201,911,998	141,375	37,453,986	1,095,300	240,602,659
- tradable securities	134,071,800	-	18,399,902	-	152,471,702
- cash deposits	175,104,531	33,199,227	27,780,845	1,408,642	237,493,245
- other assets	324,803,371	5,363,179	190,900,718	27,248,683	548,315,951
Unsecured loans	-	154,960,914	-	-	154,960,914
Total loans and advances to customers	**1,164,191,875**	**197,177,121**	**554,558,265**	**622,974,437**	**2,538,901,698**

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

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

11 Loans and Advances to Customers (continued)

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

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

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	Corporate	Consumer	SME	Mortgage	Total
Neither past due nor impaired					
Excellent	613,542,462	171,273,067	374,140,980	584,489,304	1,743,445,813
Good	59,608,632	808,648	16,207,237	7,208,618	83,833,135
Restructured	224,807,819	80,612	44,716,233	140,366	269,745,030
Total neither past due nor impaired	**897,958,913**	**172,162,327**	**435,064,450**	**591,838,288**	**2,097,023,978**
Past due but not impaired					
- less than 30 days overdue	63,914,236	14,093,643	14,599,900	22,698,939	115,306,718
- 30 to 90 days overdue	16,962,015	3,911,898	14,519,533	4,571,427	39,964,873
- 91 to 180 days overdue	49,845,631	2,102,176	5,744,789	1,151,280	58,843,876
- 181 to 360 days overdue	26,072,045	1,703,241	27,026,745	2,051,008	56,853,039
- over 360 days overdue	-	3,203,836	16,884,471	663,495	20,751,802
Total past due but not impaired	**156,793,927**	**25,014,794**	**78,775,438**	**31,136,149**	**291,720,308**
Loans individually determined to be impaired					
- less than 30 days overdue	998,796	-	-	-	998,796
- 30 to 90 days overdue	-	-	33,294	-	33,294
- 91 to 180 days overdue	19,805,086	-	107,748	-	19,912,834
- 181 to 360 days overdue	26,866,823	-	34,317,476	-	61,184,299
- over 360 days overdue	61,768,330	-	6,259,859	-	68,028,189
Total individually impaired loans (gross)	**109,439,035**	**-**	**40,718,377**	**-**	**150,157,412**
Less impairment provisions	**(49,180,880)**	**(2,871,780)**	**(23,690,355)**	**(1,238,645)**	**(76,981,660)**
Total loans and advances to customers	**1,115,010,995**	**194,305,341**	**530,867,910**	**621,735,792**	**2,461,920,038**

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

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

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

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

11 Loans and Advances to Customers (continued)

The effect of collateral at 31 December 2015:

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

The effect of collateral at 31 December 2014:

In thousands of Mongolian Tugriks	Over-collateralised Assets: Carrying value of the assets	Over-collateralised Assets: Fair value of collateral	Under-collateralised Assets: Carrying value of the assets	Under-collateralised Assets: Fair value of collateral
Corporate loans	1,108,202,014	2,760,385,624	55,989,861	27,795,552
Consumer loans to individuals	39,755,737	103,028,437	157,421,384	1,929,790
Loans to small and medium business	466,272,050	1,474,836,065	88,286,215	62,348,400
Mortgage loans to individuals	622,363,337	1,188,829,728	611,100	450,000
Total	**2,236,593,138**	**5,527,079,854**	**302,308,560**	**92,523,742**

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

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

Refer to Note 19 for the details on repossessed collateral, which was recognised by the Group as fore-closed properties. Refer to Note 38 for the estimated fair value of each class of loans and advances to customers. Information on related party balances is disclosed in Note 40. Currency, interest rate and maturity analysis of loans and advances to customers are disclosed in Note 34.

12 Investment Securities Available for Sale

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Unquoted equities, at fair value	58,485,255	60,598,447
Quoted equity securities, at fair value	9,602,795	422,284
Total	**68,088,050**	**61,020,731**

Below is the information on changes in the portfolio of investment securities available for sale during the years ended 31 December 2015 and 31 December 2014:

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Carrying amount at 1 January	**61,020,732**	**3,194,738**
Fair value gains less losses	6,539,214	(813,651)
Purchases – quoted	213,572	-
Purchases – unquoted (Note 13)	437,832,600	164,712,665
Disposals of investment securities available for sale - quoted	-	(12,336)
Disposals of investment securities available for sale – unquoted (Note 13)	(437,832,600)	(106,712,665)
Exchange differences	314,532	651,980
Carrying amount at 31 December	**68,088,050**	**61,020,731**

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 2015 and 31 December 2014, the Bank has purchased 10% of investment units of the Fund, which invested its funds in real estate properties in early 2015. The total investment amounts to MNT 58 billion and management believes that it is fully recoverable as at 31 December 2015 and 31 December 2014, given the assessment of the value of purchased properties done by third party i.e independent qualified appraisers.

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

In late December 2015, Mongolian Mortgage Corporation (MIK) LLC has issued its new shares at Mongolian Stock Exchange. As a result the Bank re-measured the investment at fair value based on the valuation of MIK shares performed by its internal valuation specialist as at 31 December 2015 based on available information resulting from this share issue.

Fair value gains of MNT 6,539,214 thousand in other comprehensive income represents the fair value adjustment of available for sale investment in MIK LLC. Shares in MIK LLC were valued at cost as of 31 December 2014, as management believed that fair value could not have been determined reliably.

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

13 Investment Securities Held to Maturity

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Treasury bills of the Bank of Mongolia (a)	424,454,647	209,591,218	424,454,647	209,591,218
Government bonds (b)	66,223,099	66,121,588	64,901,615	65,968,346
MIK bond (c)	64,008,203	14,784,500	64,008,203	14,784,500
Promissory Notes (d)	39,467,452	-	39,467,452	-
Corporate bonds	17,419	-	-	-
Total investment securities held to maturity	**594,170,820**	**290,497,306**	**592,831,917**	**290,344,064**

13 Investment Securities Held to Maturity (continued)

For measurement of investment securities held to maturity refer to Note 39.

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

The Bank of Mongolia central bank and treasury bills ("BOM bills") are interest bearing short-term bills issued at a discount. Below is the information on changes in the treasury bills of BOM during the years ended 31 December 2015 and 31 December 2014:

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Carrying value as at 1 January	**209,591,218**	**549,098,116**
Acquisitions	2,305,701,429	15,041,993,102
Maturities	(2,090,838,000)	(15,381,500,000)
Carrying value as at 31 December	**424,454,647**	**209,591,218**

As of 31 December 2015, the Bank held treasury bills of the Bank of Mongolia purchased at discounted price with fixed interest rate of 13% p.a and original maturity date of 7 days (2014: interest rate 12%-12.5% p.a and original maturity date ranging from 6 – 28 days). As of 31 December 2015, treasury bills in amount of MNT 174,204,274 thousands were collateralized under REPO arrangements disclosed in Note 23 and Note 36.

(b) Government bonds, including Government treasury bills

Government bonds are issued by the Ministry of Finance with original maturities ranging from 6 to 121 months (2014: 3 to 155 months), and issued at a discount. Government bonds include Government treasury bills which have original maturity up to 3 months and thus represent cash and cash equivalents. Below is the information on changes in Government bonds during the years ended 31 December 2015 and 31 December 2014:

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Carrying value as at 1 January	**66,121,588**	**154,939,387**	**65,968,346**	**154,939,387**
Acquisitions	52,893,357	143,173,300	50,791,300	143,018,000
Maturity	(52,280,700)	(235,333,037)	(51,365,400)	(235,333,037)
Unamortized discounted premium	(1,398,888)	2,407,365	(1,380,372)	2,412,811
Accrued interest income	887,741	934,573	887,741	931,184
Fair value as at 31 December	**66,223,098**	**66,121,588**	**64,901,615**	**65,968,345**

(c) MIK bond

The MIK bonds represent the bonds secured by the mortgage loans provided by the Bank to the customers. The bond represents a Junior residential mortgage-backed securities (RMBS) obtained from a Mongolian Mortgage Corporation LLC (MIK-SPC) securitisation transaction as disclosed in Note 4.

During the first quarter of 2015, the Bank participated in the fourth MIK securitization transactions. The Bank sold total of MNT 161,853,300 thousand of the 8% Mortgage loans, described in Note 4, to MIK SPC for which it received residential mortgage-backed securities (RMBS) amounting to MNT 145,668,000 thousand Senior RMBS notes bearing interest at 4.5% and MNT 16,185,300 thousand Junior RMBS notes bearing interest at 10.5%.

During the second quarter of 2015, the Bank participated in the fifth MIK securitization transactions. The Bank sold total of MNT 169,944,900 thousand of the 8% Mortgage loans, described in Note 4, to MIK SPC for which it received residential mortgage-backed securities (RMBS) amounting to MNT 152,950,400 thousand Senior RMBS notes bearing interest at 4.5% and MNT 16,994,500 thousand Junior RMBS notes bearing interest at 10.5%.

During the third and fourth quarters of 2015, the Bank participated in the sixth and seventh MIK securitization transaction. The Bank sold MNT 83,105,900 thousand and MNT 71,576,600 thousand respectively, of the 8% Mortgage loans, described in Note 4, to MIK SPC for which the Bank received residential mortgage-backed securities (RMBS) amounting to MNT 74,795,300 thousand and MNT 64,418,900 thousand Senior RMBS notes bearing interest at 4.5% each and MNT 8,310,600 thousand and MNT 7,157,700 thousand Junior RMBS notes bearing interest at 10.5%.

Senior RMBS notes were recognized as Investment securities available for sale, while Junior RMBS notes were recognized as Investment securities held to maturity, in accordance with the management's intentions. During 2015, the Bank sold Senior Tranche RMBS notes in amount of MNT 437,832,600 thousand to the Bank of Mongolia as repayment of 4% funding received under mortgage lending program.

As described in Note 4 the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. Any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority).

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

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	**Treasury bills of the Bank of Mongolia**	**Government bonds**	**MIK bond**	**Promissory Notes**	**Total**
Neither past due nor impaired					
- B	209,591,218	65,968,346	-	-	275,559,564
- Unrated	-	-	14,784,500	-	14,784,500
Total neither past due nor impaired	**209,591,218**	**65,968,346**	**14,784,500**	**-**	**290,344,064**

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 2015 and 31 December 2014.

(d) Promissory Notes

As of 31 December 2015, the Bank has invested in MNT 39,467,452 thousand of promissory notes issued by Ministry of Finance which have interest rate of 8% p.a. and original maturities ranging from 246 to 360 days.

14 Investment Properties

The investment properties accounted for under fair value model represents the carrying value of a complex of summer camp buildings not used for the principal activity of the Group. The fair value of these investment properties is approximately MNT 1,209,050 thousand as of 31 December 2015 (2014: MNT 1,209,050 thousand).

15 Investment in Subsidiary

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Unquoted share, at cost	1,200,000	200,000

The amount represents the 100% ownership of Golomt Securities LLC, a Company incorporated in Mongolia to operate in field of brokerage and dealing.

In January 2015, the Bank made an additional investment of MNT 1,000,000 thousand to its subsidiary, Golomt Securities LLC.

16 Other Assets

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Other financial assets:				
Receivables on cash and settlements services	1,056,063	1,366,894	1,056,063	1,351,020
Receivable from individuals	260,314	596,627	260,314	596,627
Receivable from companies	3,854,468	2,080,992	3,854,448	2,069,862
Other financial assets	6,414,964	3,395,378	6,384,275	3,395,378
Less: provision for impairment	(2,895,607)	(1,876,088)	(2,895,607)	(1,876,088)
Total financial assets	**8,690,202**	**5,563,803**	**8,659,493**	**5,536,799**
Other non- financial assets:				
Prepayments for employees benefits	8,524,141	5,343,386	8,524,141	5,343,386
Office materials and supplies	596,546	606,845	596,546	606,845
Prepayment for maintenance of buildings	45,510	162,080	45,510	162,080
Prepayments for rent	1,587,499	723,418	1,569,925	722,768
Prepayments for employees	432	2,886	432	2,886
Other prepayments	2,899,061	1,358,387	2,898,417	1,358,387
Other non-financial assets	443,566	456,197	443,565	456,197
Total non-financial assets	**14,096,755**	**8,653,199**	**14,078,536**	**8,652,549**
Total other assets	**22,786,957**	**14,217,002**	**22,738,029**	**14,189,348**

Total prepayments for employee benefits include prepayments related to loans to employees at preferential rates of MNT 8,524,141 (31 December 2014: 4,843,448 thousand). In accordance with IFRS, fair value adjustments at initial recognition of loans to employees issued at preferential rates represents salary prepayment and is recognised within other non-financial assets.

Increase in the other financial asset mostly relate to receivable from the Bank of Mongolia in amount of MNT 3,342,134 thousand recognized in 2015.

Analysis by credit quality of other financial assets outstanding at 31 December 2015 is as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Neither past due nor impaired					
- Excellent	519,125	258,623	3,087,327	4,751,611	**8,616,686**
Total neither past due nor impaired	**519,125**	**258,623**	**3,087,327**	**4,751,611**	**8,616,686**
Impaired					
- less than 30 days overdue	-	-	-	-	-
- 30 to 90 days overdue	60,782	1,691	-	-	**62,473**
- 91 to 180 days overdue	-	-	-	-	-
- 181 to 360 days overdue	-	-	-	-	-
- over 360 days overdue	476,156	-	767,121	1,632,664	**2,875,941**
Total impaired	**536,938**	**1,691**	**767,121**	**1,632,664**	**2,938,414**
Less impairment provisions	**(313,912)**	**-**	**(816,815)**	**(1,764,880)**	**(2,895,607)**
Total other financial assets	**742,151**	**260,314**	**3,037,633**	**4,619,395**	**8,659,493**

Analysis by credit quality of other financial assets outstanding at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Neither past due nor impaired					
- Excellent	748,644	596,627	2,069,862	1,777,808	**5,192,941**
Total neither past due nor impaired	**748,644**	**596,627**	**2,069,862**	**1,777,808**	**5,192,941**
Impaired					
- less than 30 days overdue	527,148	-	-	286,747	**813,895**
- 30 to 90 days overdue	-	-	-	-	-
- 91 to 180 days overdue	-	-	-	-	-
- 181 to 360 days overdue	-	-	-	-	-
- over 360 days overdue	75,228	-	-	1,330,823	**1,406,051**
Total impaired	**602,376**	**-**	**-**	**1,617,570**	**2,219,946**
Less impairment provisions	**(341,677)**	**-**	**-**	**(1,534,411)**	**(1,876,088)**
Total other financial assets	**1,009,343**	**596,627**	**2,069,862**	**1,860,967**	**5,536,799**

16 Other Assets (continued)

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

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Provision for asset impairment at 1 January 2015	**331,424**	**-**	**66,540**	**1,478,124**	**1,876,088**
Provision for impairment during the year	208,790	-	750,275	286,756	**1,245,821**
Exchange difference	38,774	-	-	-	**38,774**
Amounts written off during the year as uncollectible	(265,075)	-	-	-	**(265,075)**
Provision for asset impairment at 31 December 2015	**313,913**	**-**	**816,815**	**1,764,880**	**2,895,607**

Movements in the provision for asset impairment during 2014 are as follows:

In thousands of Mongolian Tugriks	Receivables on cash and settlements services	Receivable from individuals	Receivable from companies	Other financial assets	Total
Provision for asset impairment at 1 January 2014	**671,393**	**-**	**33,270**	**179,235**	**883,898**
Provision for impairment during the year	291,426	-	33,270	1,356,716	**1,681,412**
Exchange difference	11,575	-	-	-	**11,575**
Amounts written off during the year as uncollectible	(642,970)	-	-	(57,827)	**(700,797)**
Provision for asset impairment at 31 December 2014	**331,424**	**-**	**66,540**	**1,478,124**	**1,876,088**

17 Intangible Assets

	Group			Bank		
In thousands of Mongolian Tugriks	Computer software licences	Land use right	Total	Computer software licences	Land use right	Total
Cost at 1 January 2014	9,008,038	673,313	**9,681,351**	9,004,523	673,313	**9,677,836**
Accumulated amortization	(5,043,000)	-	**(5,043,000)**	(5,040,534)	-	**(5,040,534)**
Carrying amount at 1 January 2014	**3,965,038**	**673,313**	**4,638,351**	**3,963,989**	**673,313**	**4,637,302**
Additions	11,146,410	-	**11,146,410**	11,146,410	-	**11,146,410**
Charge for the year (Note 30)	(1,975,004)	-	**(1,975,004)**	(1,974,395)	-	**(1,974,395)**
Write-offs at cost	(286,281)	-		(286,281)	-	**(286,281)**
Write-offs accumulated amortization	286,281	-		286,281	-	**286,281**
Carrying amount at 31 December 2014	**13,136,444**	**673,313**	**13,809,757**	**13,136,004**	**-**	**13,809,317**
Cost at 1 January 2015	20,154,448	673,313	20,827,761	19,864,652	673,313	**20,537,965**
Accumulated amortization	(7,018,004)	-	(7,018,004)	(6,728,648)	-	**(6,728,648)**
Carrying amount at 1 January 2015	13,136,444	673,313	**13,809,757**	**13,136,004**	**673,313**	**13,809,317**
Additions	5,434,785	-	**5,434,785**	5,426,390	-	**5,426,390**
Charge for the year (Note 30)	(4,503,962)	-	**(4,503,962)**	(4,499,708)	-	**(4,499,708)**
Carrying amount at 31 December 2015	**14,067,267**	**673,313**	**14,740,580**	**14,062,686**	**673,313**	**14,735,999**

18 Premises and equipment

/Group/

In thousands of Mongolian Tugriks	**Premises**	**Motor vehicles**	**Office equipment and computers**	**Furniture**	**PPE reserve**	**Leasehold improvement**	**Construction in progress**	**Total premises and equipment**
Cost at 1 January 2014	22,157,486	2,306,840	21,148,547	2,867,084	3,417,828	548,622	14,708,753	**67,155,160**
Accumulated depreciation	18,011	(897,156)	(11,405,643)	(1,935,025)	-	(265,300)	-	**(14,485,113)**
Carrying amount at 1 January 2014	**22,175,497**	**1,409,684**	**9,742,904**	**932,059**	**3,417,828**	**283,322**	**14,708,753**	**52,670,047**
Additions	35,726,751	686,900	3,839,426	1,581,387	3,273,873	1,109,521	12,597,232	**58,815,090**
Reclassification	3,323,032	-	-	-	-	-	(3,323,032)	**-**
Transfers	-	-	1,353,029	-	(1,353,029)	-	-	**-**
Disposals	(619,556)	(340,758)	(158,582)	(2,347)	-	-	(11,675,160)	**(12,796,403)**
Write-offs	-	-	(451,259)	-	-	-	-	**(451,259)**
Charge for the year (Note 30)	(956,818)	(321,827)	(5,489,794)	(299,523)	-	(219,965)	-	**(7,287,927)**
Disposals	280,091	189,090	146,156	1,302	-	-	-	**616,639**
Write-offs	-	-	433,722	-	-	-	-	**433,722**
Carrying amount at 31 December 2014	**59,928,997**	**1,623,089**	**9,415,602**	**2,212,878**	**5,338,672**	**1,172,878**	**12,307,793**	**91,999,909**
Cost at 1 January 2015	60,587,713	2,652,982	25,731,161	4,446,124	5,338,672	1,658,143	12,307,793	**112,722,588**
Accumulated depreciation	(658,716)	(1,029,893)	(16,315,559)	(2,233,246)	-	(485,265)	-	**(20,722,679)**
Carrying amount at 1 January 2015	**59,928,997**	**1,623,089**	**9,415,602**	**2,212,878**	**5,338,672**	**1,172,878**	**12,307,793**	**91,999,909**
Additions	85,797,445	320,741	1,124,274	1,628,814	473,500	389,740	4,278,944	**94,013,458**
Reclassification	2,393,109	-	-	-	-	-	(2,393,109)	**-**
Transfers	785,497	-	4,324,855	1,948	(4,326,803)	(785,497)	-	**-**
Disposals	(214,979)	(105,094)	(106,155)	(27,311)	-	-	-	**(453,539)**
Write-offs	-	-	(274,221)	(41,289)	-	-	-	**(315,510)**
Charge for the year (Note 30)	(2,618,550)	(289,501)	(5,660,675)	(331,220)	-	(353,045)	-	**(9,252,991)**
Disposals	118,230	104,348	104,958	14,425	-	-	-	**341,961**
Write-offs	-	-	269,361	30,997	-	-	-	**300,358**
Carrying amount at 31 December 2015	**145,418,730**	**1,654,467**	**9,196,902**	**4,260,473**	**1,485,370**	**424,076**	**14,193,628**	**176,633,646**

18 Premises and equipment (continued)

/Bank/

In thousands of Mongolian Tugriks	Premises	Motor vehicles	Office equipment and computers	Furniture	PPE reserve	Leasehold improvement	Construction in progress	Total premises and equipment
Cost at 1 January 2014	22,157,486	2,306,840	21,126,113	2,852,938	3,417,828	548,622	14,708,753	**67,118,580**
Accumulated depreciation	18,011	(897,156)	(11,393,032)	(1,932,549)	-	(265,300)	-	**(14,470,026)**
Carrying amount at 1 January 2014	**22,175,497**	**1,409,684**	**9,733,081**	**920,389**	**3,417,828**	**283,322**	**14,708,753**	**52,648,554**
Additions	35,726,751	686,900	3,839,230	1,581,387	3,273,873	1,109,521	12,597,232	**58,814,894**
Reclassification	3,323,032	-	-	-	-	-	(3,323,032)	**-**
Transfers	-	-	1,353,029	-	(1,353,029)	-	-	**-**
Disposals	(619,556)	(340,758)	(158,582)	(2,347)	-	-	(11,675,160)	**(12,796,403)**
Write-offs	-	-	(451,259)	-	-	-	-	**(451,259)**
Charge for the year (Note 30)	(956,818)	(321,827)	(5,482,313)	(298,108)	-	(219,965)	-	**(7,279,031)**
Disposals	280,091	189,090	146,156	1,302	-	-	-	**616,639**
Write-offs	-	-	433,722	-	-	-	-	**433,722**
Carrying amount at 31 December 2014	**59,928,997**	**1,623,089**	**9,413,064**	**2,202,623**	**5,338,672**	**1,172,878**	**12,307,793**	**91,987,116**
Cost at 1 January 2015	60,416,811	2,652,983	25,708,529	4,679,524	5,338,673	1,658,144	12,307,793	**112,762,457**
Accumulated depreciation	(1,258,833)	(1,029,893)	(16,295,467)	(1,705,882)	-	(485,266)	-	**(20,775,341)**
Carrying amount at 1 January 2015	**59,157,978**	**1,623,090**	**9,413,062**	**2,973,642**	**5,338,673**	**1,172,878**	**12,307,793**	**91,987,116**
Additions	85,797,445	317,200	1,123,561	1,615,664	473,501	389,740	4,278,944	**93,996,055**
Reclassification	2,393,109	-	-	-	-	-	(2,393,109)	**-**
Transfers	785,497	-	4,324,855	1,948	(4,326,803)	(785,497)	-	**-**
Disposals	(214,979)	(100,177)	(106,155)	(13,166)	-	-	-	**(434,477)**
Write-offs	-	-	(274,221)	(41,289)	-	-	-	**(315,510)**
Charge for the year (Note 30)	(2,618,550)	(288,294)	(5,659,232)	(329,457)	-	(353,045)	-	**(9,248,578)**
Disposals	118,230	100,177	104,958	10,417	-	-	-	**333,782**
Write-offs	-	-	269,361	30,997	-	-	-	**300,358**
Carrying amount at 31 December 2015	**145,418,730**	**1,651,996**	**9,196,189**	**4,248,756**	**1,485,371**	**424,076**	**14,193,628**	**176,618,746**

Additions in premises include the acquisition of the Bank's head office building for MNT 61,095,216 thousand and other branch buildings. The Bank purchased the head office on an arm-length basis reflecting its market value from Adis Mining LLC, a related party in June 2015 (Note 40).

Other premises have been revalued at fair value at 30 June 2013. The valuation was carried out by independent appraisers, a consortium of nine companies led by Yudentax TIN audit LLC, Ulaanbaatar, Mongolia. The consortium holds a recognised and relevant professional qualification and has recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value for premises located in the capital Ulaanbaatar and other urban areas and replacement cost for premises located in rural areas. Using market value of similar assets was considered appropriate for these properties due to lack of reliable input data for discounted cash flow approach. At 31 December 2015 the carrying amount of premises would have been MNT 137,574,591 thousand (2014: MNT 51,716,819 thousand) had the assets been carried at cost less depreciation.

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

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Premises at revalued amount in the statement of financial position	145,418,730	59,928,997
Revaluation reserve presented in equity	(7,476,100)	(7,844,139)
Revaluation reserve - transfer to retained earnings	(368,039)	(368,039)
Premises at cost less accumulated depreciation	**137,574,591**	**51,716,819**

19 Repossessed collaterals

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Financial assets at fair value	50,133,051	-
Non-financial assets at cost	51,717,714	9,196,483
Less: Impairment provision	(1,755,861)	(880,992)
Total repossessed collaterals	**100,094,904**	**8,315,491**

Financial assets at fair value represent shares in Burkhan Del Alt LLC and Smart Trend LLC which the Bank has acquired in the process of settlement of overdue loans, which value is intended to be recovered through their sale of the assets of those companies.

During 2014, shares of a Mongolian company quoted on Hong Kong stock exchange were sold, which led to realized gain on sale is recognized in profit or loss in amount of MNT 3,514,764 thousand within line 'Gains less losses from financial assets available for sale'.

Non-financial assets at cost represent premises which the Bank has acquired in the process of settlement of overdue loans, which value is intended to be recovered through their sale. The impairment provision disclosed above fully relates to non-financial assets. For the accounting policy applied refer to Note 4.31.

Movements in the provision for repossessed non-financial collaterals during 2015 and 2014 are as follows:

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Provision for repossessed collaterals at 1 January	**880,992**	**523,310**
Provision for impairment during the year	950,575	440,287
Amounts written off during the year as uncollectible	(75,706)	(82,605)
Provision for repossessed collaterals at 31 December	**1,755,861**	**880,992**

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

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

20 Due to Other Banks

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Short-term placements of other banks	82,002,849	27,038,904
Long-term placement of other banks	7,997,821	106,307,760
Total due to other banks	**90,000,670**	**133,346,664**

Amount due to other banks and financial institutions represent foreign currency and local currency accounts and time deposits placed with Mongolian and foreign banks. In January 2015, a term deposits of USD 40 million from a domestic bank was matured, which led to decrease in amounts due to other banks compared to 31 December 2014.

At 31 December 2015 short term placement relates to current accounts from local and foreign banks, and deposits from local banks and foreign banks with interest rates ranging between 1.2%-7.5% p.a. (2014: 2%-5.8%) and original maturity ranging from 7 to 91 days (2014: from 6 to 77 days).

Refer to Note 38 for the disclosure of the fair value of each class of due to other banks. Currency, interest rate and maturity analysis of due to other banks are disclosed in Note 34.

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

21 Customer Accounts

	Group		Bank	
In thousands of Mongolian Tugriks	31 December 2015	31 December 2014	31 December 2015	31 December 2014
State and public organizations	**168,050,748**	**109,226,946**	**168,050,748**	**109,226,946**
- Current/settlement accounts	67,034,331	76,135,907	67,034,331	76,135,907
- Demand deposits	42,350,036	22,293,241	42,350,036	22,293,241
- Term deposits	58,666,381	10,797,798	58,666,381	10,797,798
Legal entities	**523,711,238**	**847,847,785**	**523,711,258**	**848,034,086**
- Current/settlement accounts	354,736,333	529,804,588	354,736,353	529,980,889
- Demand deposits	25,944,869	28,329,097	25,944,869	28,339,097
- Term deposits	143,030,036	289,714,100	143,030,036	289,714,100
Individuals	**1,366,537,181**	**1,251,639,366**	**1,366,508,836**	**1,251,639,366**
- Current/demand accounts	77,949,726	93,938,972	77,921,381	93,938,972
- Demand deposits	290,801,245	352,483,744	290,801,245	352,483,744
- Term deposits	997,786,210	805,216,650	997,786,210	805,216,650
Other	**21,529,752**	**23,369,188**	**21,529,752**	**23,369,188**
- Current/demand accounts	10,500,043	14,317,714	10,500,043	14,317,714
- Demand deposits	1,145,985	2,994,696	1,145,985	2,994,696
- Term deposits	9,883,724	6,056,778	9,883,724	6,056,778
Total customer accounts	**2,079,828,919**	**2,232,083,285**	**2,079,800,594**	**2,232,269,586**

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 2015 the aggregate amount of the top 30 biggest customers is MNT 482,149,570 thousand (31 December 2014: MNT 635,381,863 thousand) or 23% of total customer accounts (31 December 2014: 29%).

The amount due to a subsidiary amounting to MNT 34,977 thousand (2014: MNT 186,299 thousand) was eliminated in the Group's financial statements. At 31 December 2015, included in customer accounts are deposits of MNT 10,041,027 thousand (2014: MNT 14,112,014 thousand) held as collateral for irrevocable commitments under bank guarantee. Refer Note 36.

22 Other Borrowed Funds

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
(a)		
Borrowed funds under Project /MNT/	475,890,342	959,036,160
Borrowed funds under Project /USD/	1,706,171	6,070,000
Borrowed funds under Project /EUR/	1,158,211	857,925
Total borrowed funds under projects	**478,754,724**	**965,964,085**
(b)		
Borrowings from foreign banks and financial institutions		
Borrowings from other foreign bank /USD/	199,659,254	-
Trade finance from foreign banks and financial institutions		
Borrowings from foreign banks and financial institutions /USD/	88,668,903	42,317,394
Borrowings from foreign banks and financial institutions /EUR/	299,685	944,876
Borrowings from foreign banks and financial institutions /CNY/	2,458,416	2,272,673
Total borrowings from foreign banks and financial institutions	**291,086,258**	**45,534,943**
(c)		
Borrowings from Bank of Mongolia /MNT/	245,093,973	-
TOTAL (a+b+c)	**1,014,934,955**	**1,011,499,028**

22 Other Borrowed Funds (continued)

(a) Borrowed funds under project

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Projects		
Borrowings under Housing finance Project	693,885	1,152,887
Borrowings under SME development and natural environment protection	22,108,616	23,323,236
Borrowings under SME industry support fund	36,671,384	32,812,235
Borrowings under project for support to finished wool and cashmere producers	4,333,089	7,408,683
Borrowings under 40000 Housing Unit Development program	52,114	76,934
Borrowings under Fuel price Stabilization Sub-Program	-	26,686,936
Borrowings under Agriculture and Rural Development Project	793,915	4,239,088
Private sector development project loan 2, MNT, USD	628,742	1,073,412
Project on supporting milk and dairy products manufacturing	41,204,480	39,011,738
Project on constructing greenhouse farm	26,360,050	27,688,111
Project on producing woolen goods	48,022,000	54,434,877
Project on supporting the sewing industry	3,610,600	11,355,830
Project on renewing the cashmere technology	102,264,240	109,760,864
Project loan of KFB bank	5,557,120	4,830,150
Stabilizing prices of key commodities and products	-	46,038
Project on meat reserve	1,028	14,043,484
Project to increase number of warehouses and to support development of intensive livestock	18,502,700	28,528,826
Project on housing prices stabilization	3,567,865	11,086,604
Project on promoting the construction sector	-	30,000,000
The Program on reserve cement and armature	-	535
Housing mortgage program	102,504,132	469,024,994
Project on coal reserve	-	12,770,356
Program to support construction industry	1,503,288	2,004,658
Project 888 to support export and substitute import	33,478,823	27,376,936
MNCCI leather processing project	23,697,726	17,257,211
Price stabilization program to reduce the cost of imported goods	-	9,238,987
Other borrowing under project	3,198,927	730,475
TOTAL	**478,754,724**	**965,964,085**

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

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

The Government of Mongolia and the Bank of Mongolia entered into a memorandum of understanding on joint implementation of a mid-term program for stabilizing the price of main goods on 22 October 2012 (SIFS). Within the framework of this program, the Bank entered into agreements for Fuel Pricing Stabilization (SIFS) on 10 December 2012, Food Price Stabilization on 24 December 2012, and Construction sector support and apartment price stabilization on 7 May 2013 with the Bank of Mongolia. For SIFS and FPS the loan bears 0.89% interest rate per annum. The Bank then lends the funds to approved participants in the programs at the interest rate of 3.8% p.a. For Construction sector support and apartment price stabilization program the loan bear 2.5%-

4% interest rate per annum. And the Bank then lends the funds to approved participants in the program at the interest rate of 5.5%-7% p.a. Under the agreements with the Bank of Mongolia, in the event the Bank does not repay the Bank of Mongolia in accordance with terms, the Bank of Mongolia has the right to debit the Bank's account at the Bank of Mongolia. The Bank approves all loans disbursement and bears the credit risk.

Under Housing Mortgage Program, the Bank received funds during 2014 and 2015 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.

Apart from the above programs, during 2013 the Bank obtained financing from the Bank of Mongolia under the Government programs for financing the construction sector. These funds are denominated in MNT and obtained at interest rates of 7% p.a., which are lower than rates at which the Bank could source the funds from other lenders at Mongolian market. Though these funds need to be used for issuance of loans that meet specific criteria (companies engaged in construction of apartment buildings, specific ratio criteria set by the Bank of Mongolia), the Bank has discretionary rights to determine interest rates on loans issued to customers under this program. Consequently, interest rates on related loans to customers are not significantly different from market interest rates, i.e. from interest rates on loans issued from other Bank's funding. The Bank has discretionary rights to determine interest rates on loans issued to customers under this program, and interest rates on related loans to customers are not significantly different from market interest rates for construction loans, i.e. from interest rates on loans issued from the Bank's other lending sources.

As a result, the above funding meets the condition of government grant in accordance with IAS 20. For the accounting policies related to government grants, refer to Note 4. Remaining balances of government grant were repaid during 2015 (31 December 2014: remaining balance of government grant amounted MNT 943,253 thousand). Management believes that presentation of related amounts as a separate line in the Consolidated Statement of Financial Position is not necessary, as related amounts are not significant from the perspective of users of financial information.

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% to 5.7 % p.a, and issued loans to customers at advantageous interest rate of 8% p.a. which is defined in the contract with the DBM. The Bank bears the credit risk in this arrangement.

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

The Bank participates in the Government program of financing 888 projects to support export and substitute import products in Mongolia through Development Bank of Mongolia and commercial banks. As a part of this arrangement the Bank received funding at interest rates ranging from 3% to 5 % p.a with maturity of 5 years and maximum interest rate on issued loans ranging from 7% to 9% p.a., which rep-resent 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.

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

The bank has loan covenant on borrowing due from ADB. There were no breaches in covenants as of 31 December 2015 and 31 December 2014.

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2015 in original currency	Principle balance as of 31 December 2015 in MNT
Government price stabilization program	Bank of Mongolia	Other borrowing under project (ADB Employment Generation Loan)	MNT	5/7/2001	5/7/2018	2,748	2,747,900
	Bank of Mongolia	Project loan of KFB bank	EUR	12/11/2012	12/11/2017	531	1,157,930
	Bank of Mongolia	Project loan of KFB bank	MNT	5/16/2013	5/16/2018	4,390,611	4,390,611
	Bank of Mongolia	Project to support development of intensive livestock	MNT	12/19/2013	12/19/2017	6,448,333	6,448,333
	Bank of Mongolia	Program to support construction industry	MNT	11/1/2014	11/1/2016	1,500,000	1,500,000
	Bank of Mongolia	Project on housing prices stabilization	MNT	5/3/2013	7/30/2016	3,558,606	3,558,606
	Bank of Mongolia	Project to increase number of warehouses	MNT	12/19/2013	12/19/2017	12,039,238	12,039,238
	Bank of Mongolia	Housing mortgage program	MNT	6/14/2013	12/15/2016	102,492,900	102,492,900
Projects financed by Development Bank of Mongolia	Development Bank of Mongolia	Project 888 to support export and substitute import (less than 2 bln)	MNT	8/28/2014	8/28/2019	6,855,700	6,855,700
	Development Bank of Mongolia	Project 888 to support export and substitute import (more than 2 bln)	MNT	9/1/2014	8/28/2019	22,605,755	22,605,755
	Development Bank of Mongolia	Project on supporting the sewing industry	MNT	8/12/2013	12/1/2017	3,610,600	3,610,600
	Development Bank of Mongolia	Project on constructing greenhouse farm	MNT	8/12/2013	12/1/2017	26,360,050	26,360,050
	Development Bank of Mongolia	Project on supporting milk and dairy products manufacturing /DBM/	MNT	8/12/2013	12/1/2017	38,447,864	38,447,864
	Development Bank of Mongolia	Project on producing woolen goods	MNT	8/12/2013	12/1/2017	48,022,000	48,022,000
	Development Bank of Mongolia	Project on renewing the cashmere technology	MNT	8/12/2013	12/1/2017	102,264,240	102,264,240
	Development Bank of Mongolia	MNCCI leather processing project	MNT	8/22/2014	8/22/2019	23,674,709	23,674,709
	Development Bank of Mongolia	Project to support cashmere industry	MNT	6/15/2015	12/15/2016	2,000,000	2,000,000
	Development Bank of Mongolia	Projects to support export and substitute import /up to 300 billion/	MNT	9/28/2015	9/28/2020	2,000,000	2,000,000

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2015 in original currency	Principle balance as of 31 December 2015 in MNT
Joint projects of Mongolian government and JICA	JICA	Borrowings under SME industry support fund	USD	9/29/2006	12/31/2019	463	924,801
	JICA	Borrowings under SME industry support fund	MNT	6/12/2009	12/31/2017	21,122,879	21,122,879
	World Bank	Private sector development project loan-2, MNT	MNT	10/18/2007	12/20/2017	280,000	280,000
	World Bank	Private sector development project loan-2, USD	USD	12/20/2012	9/20/2016	161	321,353
Other government projects	Government	Borrowings under SME industry support fund	MNT	9/29/2006	12/31/2019	17,851,789	17,851,789
	Government	Borrowings under SME industry support fund	MNT	7/10/2012	12/31/2017	10,611,200	10,611,200
	Government	Borrowings under project for support to finished wool and cashmere producers	MNT	1/4/2012	12/4/2018	4,325,901	4,325,901
	Government	Borrowings under 40000 Housing Unit Development program	MNT	2/27/2008	3/15/2019	46,886	46,886
	Government	ADB Mortgage loan fund	MNT	11/1/2008	11/1/2017	649,017	649,017
	Government	Borrowings under Agriculture and Rural Development Project	MNT	6/13/2011	12/13/2019	793,915	793,915
	Government	Borrowings under SME industry support fund	MNT	6/12/2015	3/5/2019	8,108,349	8,108,349
	Government	Other borrowing under project (Training Loan from Foreign bank)	USD	11/12/2009	5/1/2027	225	449,519

(b) Borrowings from foreign banks and financial institutions

Borrowings from other foreign bank of MNT 199,659,254 thousand represents loan obtained on 21 December 2015 from a foreign bank in amount of USD 100,000 thousands with maturity of 18 months. The borrowing is collateralized by the Bank's current account at this bank (refer to Note 10).
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 2015 the Bank utilised MNT 91,427,003 thousand (31 December 2014: MNT 45,534,943 thousand) of related credit lines and issued loans for the same amount. Funding is provided by international banks and financial institutions for the purpose of import financing of transactions of customers. The term of such funding is up to 3 years and cash flows from customers and payment to foreign banks are matching in terms of the timing of payment and principal amount. The Bank bears the credit risk in the case of non-payment by the customer.

Refer to Note 38 for the disclosure of fair value of other borrowed funds. Information on related party balances is disclosed in Note 40. Currency, interest rate and maturity analysis of other borrowed funds are disclosed in Note 34.

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

(c) Borrowing from Bank of Mongolia

Borrowing from Bank of Mongolia was obtained on 25 December 2015 in amount of MNT 245 billion at interest rate of 14% p.a and maturity of less than 3 months.
As the above balances represent both the Bank's and Group's balances, the additional disclosure for Group is not required.

23 REPO Arrangements

As of 31 December 2015, sale and repurchase agreements relates to placements from local banks, bearing interest rate 13% – 15% p.a. (2014: 12% – 14%) respectively, with original maturity 4 - 7 days (2014: 5 - 28 days). These placements are fully collateralized by the Bank of Mongolia treasury bills disclosed in Note 13 and Note 36.

24 Other Liabilities

Other liabilities comprise the following:

In thousands of Mongolian Tugriks	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Other financial liabilities	**8,808,463**	**23,439,867**	**8,787,403**	**23,356,806**
Account payable	585,070	818,966	580,828	818,966
Liabilities for settlements of transactions	3,363,447	18,904,073	3,363,447	18,904,073
Other	4,859,945	3,716,828	4,843,128	3,633,767
Other non-financial liabilities	**3,568,111**	**3,956,514**	**3,568,111**	**3,953,584**
Payables to employees	1,957,680	3,364,430	1,957,680	3,364,430
Tax payable other than on income	1,610,431	592,084	1,610,431	589,154
Total other liabilities	**12,376,574**	**27,396,381**	**12,355,514**	**27,310,390**

Liabilities for settlement of transactions relate to amounts transferred to other banks in early January 2016, at customers' requests made in late December 2015. As a result, related amounts were transferred from customers' accounts to the accounts used for settlement of transactions within 'Other financial liabilities' as of 31 December 2015 and further cleared through inter-banking settlement in early January 2016.

The decrease compared to 31 December 2014 is due to the fact that balances as of 31 December 2014 included several material one-off transactions.

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.

25 Subordinated Debt

In thousands of Mongolian Tugriks	2015	2014
Subordinated loans from Golomt Financial Group	70,060,229	66,248,404
TOTAL	**70,060,229**	**66,248,404**

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

Subordinated loans as of the year ended 31 December 2015:

	Maturity date	Currency	Interest rate p.a.	Accrued interest USD	Outstanding principal amount in USD
Golomt Financial Group (I)	31/12/2018	USD	6.0%	40,000	10,000,000
Golomt Financial Group (II)	08/12/2020	USD	5.1%	60,667	25,000,000
TOTAL				**100,667**	**35,000,000**

Subordinated loan from Golomt Financial Group (I)

The Bank received a USD10 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 6% per annum.
(b) The loan shall be repaid in full with the accrued interest on 31 December 2018.

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.

Subordinated loan from Golomt Financial Group (II)

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

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

As a result, the Bank has recognised fair value of embedded derivative in the amount of MNT 962,305 thousand in the Statement of financial position as of 31 December 2013.

On 30 April 2014, a transfer certificate was signed by Stanhope Investments, Golomt Bank and Bodi International LLC. Bodi International LLC, the main shareholder of the Bank, purchased the loan from Stanhope Investments. Both debt covenants and conversion option are waived through the agreement signed by Golomt Bank and Bodi International LLC. As a result, gain from embedded derivative is recognized through profit or loss account in these financial statements in the amount of MNT 962,305 thousand in the financial year ended 31 December 2014.

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.

None of the subordinated debt agreements have financial or other covenants.

26 Share Capital

In thousands of Mongolian Tugriks except for number of shares	Number of outstanding shares	Ordinary shares	Share premium	Preference shares	Total
At 1 January 2014	**25,907,593**	**25,907,593**	**42,322,298**	**16,388,100**	**84,617,991**
Issued during the year	309,500	309,500	877,123	9,390,800	10,577,423
Transfer from share based payment reserve	-	-	1,500,000	-	1,500,000
At 31 December 2014	**26,217,093**	**26,217,093**	**44,699,421**	**25,778,900**	**96,695,414**
New shares issued	150,500	150,500	707,650	-	858,150
Transfer from share based payment reserve	-	-	1,176,486	-	1,176,486
At 31 December 2015	**26,367,593**	**26,367,593**	**46,583,557**	**25,778,900**	**98,730,050**

The nominal registered amount of the Bank's issued share capital is MNT 26,367,593 thousand (2014: MNT 26,217,093 thousand).

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

Ordinary shares

The total authorised number of ordinary shares is 26,367,593 shares (2014: 26,217,093 shares), with a par value of MNT 1,000 per share (2014: MNT 1,000 per share). All issued ordinary shares are fully paid.

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

The shareholders of the Bank as of 31 December 2015 and 31 December 2014 and the percentages of ownership are as follows:

Shareholder	2015	2014
	Ownership (%)	**Ownership (%)**
Golomt Financial Group Co.,Ltd	83.76%	83.66%
Swiss-Mo Investment A.G	9.98%	10.04%
Trafigura Beheer B.V	4.93%	4.96%
ESOP	1.33%	1.34%
Total	**100%**	**100%**

Preferred shares

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

Under this agreement, total investment to preferred shares of the Bank amounts to USD 15 million which should be made in two instalments (USD 10 million due by 25 December 2013 and USD 5 million due by 25 December 2014). As of 31 December 2015, total preferred shares amount to USD 15,000,000, which is equivalent to MNT 25,778,900 thousand divided into 25,778,900 preferred shares.

27 Interest Income and Expense

In thousands of Mongolian Tugriks	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Interest income				
Cash and balances with central bank	7,892,101	232,486	7,892,101	232,486
Loans and advances to customers	285,607,728	291,395,259	285,607,728	291,395,258
Reverse repurchase agreements	650,174	294,145	650,174	294,146
Due from other banks	464,926	966,312	464,904	966,312
Investments held to maturity	20,363,290	45,485,178	20,214,647	45,477,723
Total interest income	**314,978,219**	**338,373,380**	**314,829,554**	**338,365,925**
Interest expense				
Customer accounts	(162,978,506)	(140,059,523)	(162,980,357)	(140,059,523)
Other borrowed funds	(36,988,454)	(58,760,818)	(36,988,454)	(58,760,818)
Due to other banks	(6,997,540)	(3,734,156)	(6,997,540)	(3,734,156)
REPO agreements	(2,781,742)	(3,459,665)	(2,781,742)	(3,459,665)
Subordinated loans	(3,547,250)	(3,282,852)	(3,547,250)	(3,282,852)
Other	(70)	(14,848)	-	(14,848)
Total interest expense	**(213,293,561)**	**(209,311,862)**	**(213,295,342)**	**(209,311,862)**
Net interest income	**101,684,659**	**129,061,518**	**101,534,212**	**129,054,063**

Interest income from cash and balances with central bank includes MNT 7,323,473 thousand relates to one-off 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 2015. This is a temporary measure of the Bank of Mongolia, expected to be effective until 31 March 2016.

Interest income includes approximately MNT 16.2 billion (2014: MNT 10.5 billion) of interest income, recognised on impaired loans to customers. Management believes that related amounts are fully recoverable, given that impaired loans and advances to customers have high collateral coverage and that non-recoverable amount of interest income is not recognised in the profit or loss account for 2015 and 2014 in accordance with IFRS requirements.

28 Fee and Commission Income and Expense

In thousands of Mongolian Tugriks	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Fee and commission income				
Account service fee and commissions	3,278,742	3,555,574	3,277,639	3,550,138
Commissions on operations with plastic cards	9,658,642	8,946,875	9,658,642	8,946,875
Commissions on documentary business and guarantees	3,160,316	2,887,642	3,160,316	2,887,642
Remittance and other service fees	4,700,063	3,989,202	4,690,939	3,947,255
Brokerage and other service fee	641,026	1,097,147	256,489	909,265
Total fee and commission income	**21,438,789**	**20,476,440**	**21,044,025**	**20,241,175**
Fee and commission expense				
Bank service expense	(2,198,496)	(2,521,124)	(2,135,101)	(2,454,066)
Card transaction expense	(4,599,837)	(4,178,019)	(4,599,837)	(4,178,019)
Online transaction expense	(151,074)	(116,420)	(151,074)	(116,420)
Total fee and commission expense	**(6,949,406)**	**(6,815,563)**	**(6,886,011)**	**(6,748,505)**
Net fee and commission income	**14,489,383**	**13,660,877**	**14,158,014**	**13,492,670**

29 Other Operating Expenses

In thousands of Mongolian Tugriks	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Income from repayment of loans which were written off	4,090,143	31,668	4,090,143	31,668
Gain or loss on disposal of premises and equipment	29,822	(24,860)	29,822	(24,860)
Other	258,113	293,516	257,477	289,213
Total other operating income	**4,378,078**	**300,323**	**4,377,442**	**296,020**

30 Administrative and Other Operating Expenses

In thousands of Mongolian Tugriks	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Staff costs	29,408,654	29,562,755	29,271,218	29,562,755
Depreciation of premises and equipment	9,252,991	7,287,927	9,248,578	7,279,927
Administrative expenses	7,862,943	7,300,215	7,820,999	7,299,715
Rental of premises	7,265,572	8,236,247	7,214,344	8,188,247
Professional fees	7,154,618	7,474,699	7,136,274	7,467,927
Amortization of software and intangible assets	4,503,962	1,975,004	4,499,708	1,974,395
Advertising and marketing services	2,371,779	2,576,402	2,294,737	2,572,998
Transportation	1,129,638	1,264,421	1,129,557	1,264,421
Voluntary and mandatory insurance	919,361	1,401,232	918,591	1,401,082
Taxes (other than income tax)	855,964	432,808	855,964	432,808
Entertainment	721,756	412,563	721,756	412,563
Loan collection expenses	704,649	1,022,524	704,649	1,022,524
Travelling expenses	663,417	778,161	645,151	778,161
Utilities	563,049	469,232	554,216	467,723
Donations	44,739	87,503	44,739	87,503
Property, plant and equipment written-off	15,152	18,384	15,152	18,384
Other	2,354,613	2,849,659	2,286,397	2,837,197
Total administrative and other operating expenses	**75,792,857**	**73,149,736**	**75,362,030**	**73,068,330**

In thousands of Mongolian Tugriks	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Staff costs consist of:				
Salaries, wages and bonus	25,336,368	25,409,726	25,216,756	25,409,726
Contribution to social and health fund	2,693,948	2,479,142	2,680,780	2,479,142
Pension fund	389,396	662,702	388,378	662,702
Staff training	417,756	508,504	414,118	508,504
Staff benefits	571,186	169,332	571,186	169,332
Share-based payments (Note 41)	-	333,349	-	333,349
Total staff costs	**29,408,654**	**29,562,755**	**29,271,218**	**29,562,755**

31 Income Taxes

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

In thousands of Mongolian Tugriks	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Current income tax charge	8,073,023	12,870,767	8,072,835	12,861,262
Deferred income tax	(1,326,905)	1,593,786	(1,331,256)	1,593,620
Income tax expense for the year	**6,746,118**	**14,464,553**	**6,741,579**	**14,454,882**

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 (2014: MNT 3 billion) of taxable income, and 25% (2014: 25%) on the excess of taxable income over MNT 3 billion (2014: MNT 3 billion) in accordance with Mongolian tax legislation.

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

In thousands of Mongolian Tugriks	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Profit before tax	**32,788,569**	**64,382,779**	**32,726,389**	**64,282,702**
Theoretical tax charge at statutory rate (2015: 25%; 2014: 25%)	8,197,142	16,095,695	8,181,597	16,070,676
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Effect of income subject to lower rate	(450,000)	(450,000)	(450,000)	(450,000)
- Non-deductible expenses	980,143	839,983	980,143	839,983
- Income on government securities taxed at different rates	(1,970,161)	(2,103,087)	(1,970,161)	(2,103,087)
- Other	(11,005)	81,962	-	97,310
Income tax expense for the year	**6,746,118**	**14,464,553**	**6,741,579**	**14,454,882**

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

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

31 Income Taxes (continued)

In thousands of Mongolian Tugriks	1 January 2014	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2014
Tax effect of deductible / (taxable) temporary differences				
Loans and advances to customers - interest income on loans overdue more than 90 days	(5,247,586)	1,305,684	-	(3,941,902)
Fair value changes of financial instruments available for sale	1,347,850	(1,509,523)	-	(161,673)
Fair value changes of derivative financial instruments	(586,256)	(935,363)	-	(1,521,619)
Prepaid income – loan origination fee	1,526,102	138,271	-	1,664,374
Provision for guarantee and letter of credit	642,688	(642,688)	-	-
Loan and advances to customers- difference between BoM and IFRS provision	753,159	54,858	-	808,016
Others	64,870	(4,859)	-	60,011
Net deferred tax liability	**(1,499,170)**	**(1,593,620)**	**-**	**(3,092,793)**

32 Other Comprehensive Income Recognised in Each Component of Equity

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

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Change in value of:		
Change in fair value of available for sale investment securities, including repossessed financial collateral	6,539,214	(813,651)
Gains reclassified to profit or loss upon disposal of repossessed financial assets available for sale	-	(3,116,008)
Income tax recorded directly in other comprehensive income	(1,311,457)	-
Other comprehensive(loss)/income	**5,227,757**	**(3,929,659)**

Changes in fair value of available for sale investments and related income tax recognised in 2015 fully relate to investment in MIK (Note 12).

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

33 Dividends

	2015		2014	
In thousands of Mongolian Tugriks	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	**-**	**-**	**-**	**-**
Dividends declared during the year	-	1,488,679	-	915,885
Dividends paid during the year	-	1,488,679	-	915,885
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividends per share declared during the year	**-**	**5%**	**-**	**5%**

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

34 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk

The Group and the Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group and the Bank controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of related borrowers. Such risks are monitored by the Group and the Bank on a regular basis, the limits being subject to a monthly (in case the borrower is a credit institution) or quarterly (in case the borrower is a non-credit institution) review. Limits on the level of credit risk by product, borrowers and industry segments are approved by the Credit Committee.

The exposure to any one borrower including banks and broker companies is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures are monitored against limits daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed by obtaining property and securities collateral and corporate and personal guarantees.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amount of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credits, the maximum exposure to credit risk is equal to total liabilities, as described in Note 34, Risk Management.

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

The Group performs the loan maturity analysis and subsequent monitoring of overdue balances. There-fore, the management provides information on overdue maturities and other information on credit risk (Note 11).

The Group is exposed to early redemption risk as a result of lending at fixed or variable interest rates, including mortgage loans that give the borrower the right of early redemption. The financial result and the Group's equity for the current year and at the end of the reporting period would not greatly depend on the rate fluctuations in case of early redemption because such loans are carried at amortised cost whereas the amount to be early redeemed corresponds or nearly corresponds to the amortised cost of loans to customers.

Market risk

The Group and the Bank takes on exposure to market risk arising from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements. The Credit Committee sets acceptable risk limits and monitors them on a daily basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the risk accepted.

Currency risk

The Group and the Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Credit Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions and monitors the compliance on a daily basis.

The Board of Governors has set limits on the level of risk within the foreign exchange portfolio. The Group and the Bank applies a VaR methodology with a 99% confidence level to assess the foreign currency positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for changes in foreign exchange quoted by the Group and the Bank of Mongolia. VaR is a method used in measuring financial risk by estimating the potential negative change in the foreign currency portfolio held by the Group and the Bank at a given confidence level and over a specified time horizon.

34 Financial Risk Management (continued)

Currency risk (continued)

The Bank issued loans denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Mongolian Tugriks may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

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

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

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2014. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	220,732,052	175,311,320	34,754,903	126,240,352	**557,038,818**
Mandatory cash balances with Bank of Mongolia	142,138,121	136,579,966	-	-	**278,718,087**
Financial assets at fair value through profit or loss	(1,141,807)	258,603	-	1,111,146	**227,942**
Due from other banks	75,721,180	147,979,192	18,348,509	25,875,301	**267,924,182**
Loans and advances to customers	2,082,819,908	373,944,125	3,294,945	1,861,060	**2,461,920,038**
Investment securities available for sale	55,651,238	-	45,409	5,324,084	**61,020,731**
Investment securities held to maturity	290,344,064	-	-	-	**290,344,064**
Other financial assets	4,184,552	745,819	588,810	17,618	**5,536,799**
Total monetary financial assets	**2,870,449,499**	**834,819,025**	**57,032,576**	**160,429,561**	**3,922,827,470**
Monetary financial liabilities					
Due to other banks	2,624	106,429,760	26,488,815	425,465	**133,346,664**
Customer accounts					
-Current Accounts	340,597,004	345,270,931	6,750,196	21,755,349	**714,373,480**
-Demand Savings	252,532,389	119,167,667	7,730,188	26,680,534	**406,110,778**
-Time Savings	598,285,207	398,496,798	13,490,697	101,512,626	**1,111,785,328**
Reverse purchase agreements	251,646,410	-	-	-	**251,646,410**
Other borrowed funds	959,036,160	48,387,394	1,802,800	2,272,674	**1,011,499,028**
Subordinated debt	-	66,248,404	-	-	**66,248,404**
Other financial liabilities	17,786,519	4,418,027	632,031	520,229	**23,356,806**
Total monetary financial liabilities	**2,419,886,313**	**1,088,418,981**	**56,894,727**	**153,166,877**	**3,718,366,898**
Derivatives	**(243,905,999)**	**250,353,509**	**-**	**(361,035)**	**6,086,475**
Net balance sheet position	**206,657,187**	**(3,246,447)**	**137,849**	**6,901,649**	**210,450,238**

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

In thousands of Mongolian Tugriks	At 31 December 2015	At 31 December 2014
US Dollar strengthening by 14% (2014 strengthening by 14%)	(3,257,928)	(454,503)
US Dollar weakening by 14% (2014 weakening by 14%)	3,257,928	454,503
Euro strengthening by 5% (2014 strengthening by 1%)	(20,242)	1,378.49
Euro weakening by 5% (2014 weakening by 1%)	20,242	(1,378)
CNY Chinese Yuan strengthening by 11% (2014 strengthening by 11%)	(155,818)	(81,445)
CNY Chinese Yuan weakening by 11% (2014 weakening by 11%)	155,818	81,445
HKD Hong Kong Dollar strengthening by 14% (2014 strengthening by 14%)	986,690	947,220
HKD Hong Kong Dollar weakening by 14% (2014 weakening by 14%)	(986,690)	(947,220)
Other strengthening by 1% (2014 strengthening by 1%)	18,229	12,369
Other weakening by 1% (2014 weakening by 1%)	(18,229)	(12,369)

34 Financial Risk Management (continued)

Interest rate risk

The Group and the Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may decrease or create losses in the event that unexpected movements arise.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions.

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

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

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2015						
Financial assets	1,715,944,979	496,377,515	517,199,743	601,083,838	216,431,979	**3,547,038,054**
Financial liabilities	1,487,035,647	728,308,538	516,593,364	683,028,095	22,899,127	**3,437,864,771**
Net interest sensitivity gap at 31 December 2015	**228,909,332**	**(231,931,023)**	**606,379**	**(81,944,257)**	**193,532,852**	**109,173,283**
At 31 December 2014						
Financial assets	1,654,899,047	484,556,927	463,151,361	840,013,189	486,196,612	**3,928,817,136**
Financial liabilities	1,787,248,984	1,108,813,531	359,161,638	424,393,696	38,749,049	**3,718,366,898**
Net interest sensitivity gap at 31 December 2014	**(132,349,937)**	**(624,256,604)**	**103,989,723**	**415,619,493**	**447,447,563**	**210,450,238**

The Bank is exposed to interest rate risk due to net interest rate sensitivity gap due to significantly higher interest bearing assets compared to interest bearing liabilities. If interest rates at 31 December 2015 had been 10% higher/(lower) with all other variables held constant, the financial result for 2015 would be have been MNT 88,654,230 thousand higher/(lower) (2014: MNT 21,045,024 thousand higher/(lower)), mainly as a result of high net interest sensitivity gap and changes interest rates during 2015.

The Bank's exposure to interest rate risk at the end of the reporting period is not representative of the typical exposure during the year. For the average exposure during 2015, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 10,153,422 thousand higher/(lower) (2014: MNT 12,905,406 thousand higher/(lower)).

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

	2015				2014			
In % p.a.	**MNT**	**USD**	**Euro**	**Other**	**MNT**	**USD**	**Euro**	**Other**
Assets								
Mandatory reserves at Bank of Mongolia	5.0%	-	-	-	-	-	-	-
Due from other banks	1.6%	-	-	-	13.5%	-	-	-
Loans and advances to customers	14.1%	12.4%	8.2%	11.1%	12.5%	11.9%	8.8%	12.5%
Investment securities held to maturity	12.2%	-	-	-	11.9%	-	-	-
Liabilities								
Due to other banks	-	3.2%	6.7%	3.7%	-	2.1%	6.6%	5.1%
Customer accounts								
- Current/settlement accounts	1.4%	0.8%	0.3%	-	1.8%	0.7%	0.5%	-
- Demand deposits	6.4%	3.3%	1.9%	1.5%	6.7%	3.4%	1.9%	1.3%
- Time deposits	14.8%	8.1%	3.7%	3.3%	13.5%	7.4%	3.8%	2.8%
Reverse repurchase agreement	14.9%	-	-	-	13.9%	-	-	-
Other borrowed funds	7.9%	2.2%	1.4%	4.9%	4.0%	3.8%	1.7%	6.8%
Subordinated debt	-	5.3%	-	-	-	5.1%	-	-

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

Geographical risk concentrations

The Group is exposed to geographical concentration risk, as almost all of its financial assets and credit related commitments are placed in Mongolia as of 31 December 2015 and 31 December 2014. A major part of the financial liabilities for 31 December 2015 and 31 December 2014 relates to Mongolia. The management believes that the Group's exposure to geographical concentration risk is mitigated due to relatively high customer diversification and industry diversification.

Other risk concentrations

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

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

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

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

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers. The Bank's exposure to concentration risk, including industry concentration risk, is disclosed in Notes 11.

Liquidity risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group and the Bank is exposed to risk via daily calls from customers on its available cash resources from customer accounts, maturing deposits, loan draw downs and guarantees. The Group does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice; it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations.

34 Financial Risk Management (continued)

Liquidity risk (continued)

The Group is keen on maintaining stable financing predominantly consisting of due to other banks, deposits of legal entities/deposits of individuals, debt securities, and also on investing funds in diversified liquid asset portfolios to be able to meet unexpected liquidity needs quickly and unhampered.

To manage its liquidity, the Group is required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing, drawing up plans to solve the problems with financing and exercising control over compliance of the liquidity ratios with the laws and regulations. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Bank of Mongolia.

The liquidity ratio during the year was as follows:

	2015	2014
31st December	38.06%	38.28%
Average during the period	31.92%	35.84%
Highest	38.06%	39.09%
Lowest	25.57%	31.41%

The Treasury of the Bank receives information about financial assets and liabilities. The Bank's Treasury controls liquidity ratios on a daily basis and, if necessary, raises funds from financial markets, mainly interbank loans, thereby managing quick and current liquidity.

The Group's management monitors the daily liquidity position and also performs stress testing under a variety of scenarios covering both normal and more severe market conditions.

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

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the end of the reporting period. Foreign currency payments are translated using the Central BoM exchange rates effective at the end of the reporting period.

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2015 is as follows:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	158,124,287	-	-	-	-	**158,124,287**
Mandatory cash balances with the Bank of Mongolia	260,739,412	1,752,388	-	-	-	**262,491,800**
Financial assets at fair value through profit or loss	5,410,038	-	-	-	-	**5,410,038**
Due from other banks	349,203,676	30,761	-	-	-	**349,234,437**
Loans and advances to customers	389,804,501	518,892,703	480,262,195	754,237,082	234,492,343	**2,377,688,824**
Investment securities available for sale	68,088,050	-	-	-	-	**68,088,050**
Investment securities held to maturity	429,446,068	11,347,717	102,147,865	35,865,138	148,253,545	**727,060,333**
Derivative financial instruments-asset	-	-	-	-	-	**-**
- inflows	60,135,749	71,527,567	-	191,421,130	-	**323,084,446**
- outflows	(57,002,050)	(63,927,221)	-	(161,948,161)	-	**(282,877,432)**
Repossessed financial assets	50,133,051	-	-	-	-	**50,133,051**
Other financial assets	8,634,629	24,864	-	-	-	**8,659,493**
Total Financial Asset	**1,722,717,411**	**539,648,779**	**582,410,060**	**819,575,189**	**382,745,888**	**4,047,097,327**
Liabilities						
Due to other banks	55,036,519	35,382,496	-	-	-	**90,419,015**
Customer accounts						
-Current Accounts	508,811,279	1,380,829	-	-	-	**510,192,108**
-Demand Savings	360,242,135	-	-	-	-	**360,242,135**
-Time Savings	200,752,516	573,650,053	393,611,202	102,221,358	-	**1,270,235,129**
Other borrowed funds	188,090,468	137,883,784	177,738,706	571,649,573	24,236,675	**1,099,599,206**
REPO arrangements	174,566,190	-	-	-	-	**174,566,190**
Subordinated debt	-	2,072,160	1,871,231	82,290,838	-	**86,234,229**
Other financial liabilities	4,832,919	2,431,067	1,437,822	85,595	-	**8,787,403**
Total Financial Liabilities	**1,492,332,026**	**752,800,389**	**574,658,961**	**756,247,364**	**24,236,675**	**3,600,275,414**
Credit related commitments	**287,667,049**	**-**	**-**	**-**	**-**	**287,667,049**
Guarantee and ILC	169,622,565	-	-	-	-	**169,622,565**
Credit Line undrawn	118,044,485	-	-	-	-	**118,044,485**
Net Gap	**(57,281,664)**	**(213,151,610)**	**7,751,099**	**63,327,825**	**358,509,213**	**159,154,863**
Accumulated Net Gap	**(57,281,664)**	**(270,433,274)**	**(262,682,175)**	**(199,354,350)**	**159,154,863**	

33 Financial Risk Management (continued)

Liquidity risk (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2014 is as follows:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	557,038,818	-	-	-	-	**557,038,818**
Mandatory cash balances with the Bank of Mongolia	278,718,087	-	-	-	-	**278,718,087**
Financial assets at fair value through profit or loss	227,942	-	-	-	-	**227,942**
Due from other banks	267,504,223	568,748	-	-	-	**268,072,971**
Loans and advances to customers	262,394,107	489,451,890	488,030,421	1,115,046,298	1,269,394,424	**3,624,317,140**
Investment securities available for sale	61,020,731	-	-	-	-	**61,020,731**
Investment securities held to maturity	217,316,287	12,023,531	8,660,503	49,085,597	33,657,325	**320,743,243**
Derivative financial instruments-asset						
- inflows	321,136,825	-	-	-	-	**321,136,825**
- outflows	(315,050,350)	-	-	-	-	**(315,050,350)**
Other financial assets						
	5,536,799	-	-	-	-	**5,536,799**
Total Financial Asset	**1,655,843,469**	**502,044,169**	**496,690,924**	**1,164,131,895**	**1,303,051,749**	**5,121,762,206**
Liabilities						
Due to other banks	112,848,957	20,862,295	-	-	-	**133,711,252**
Customer accounts						**-**
-Current Accounts	714,373,480	-	-	-	-	**714,373,480**
-Demand Savings	406,110,778	-	-	-	-	**406,110,778**
-Time Savings	269,996,599	517,749,939	304,310,849	67,427,560	-	**1,159,484,947**
Other borrowed funds	9,035,918	546,434,971	79,830,224	407,795,401	49,293,239	**1,092,389,752**
REPO arrangements	252,181,431	-	-	-	-	**252,181,431**
Subordinated debt	859,558	47,969,353	2,534,133	29,082,369	-	**80,445,413**
Other financial liabilities	23,356,806	-	-	-	-	**23,356,806**
Total Financial Liabilities	**1,788,763,527**	**1,133,016,558**	**386,675,206**	**504,305,330**	**49,293,239**	**3,862,053,860**
Credit related commitments	173,568,338	-	-	-	-	**173,568,338**
Guarantee and ILC	145,679,939	-	-	-	-	**145,679,939**
Credit Line undrawn	27,888,399	-	-	-	-	**27,888,399**
Net Gap	**(306,488,396)**	**(630,972,389)**	**110,015,718**	**659,826,565**	**1,253,758,510**	**1,086,140,008**
Accumulated Net Gap	**(306,488,396)**	**(937,460,785)**	**(827,445,067)**	**(167,618,502)**	**1,086,140,008**	

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2015. The Group's exposure is not materially different from the Bank's exposure.

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

34 Financial Risk Management (continued)

Liquidity risk (continued)

The maturity analysis of financial instruments of the Bank at 31 December 2014 is disclosed below. The Group's exposure is not materially different from the Bank's exposure.

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	557,038,818	-	-	-	-	**557,038,818**
Mandatory cash balances with the bank of Mongolia	278,718,087	-	-	-	-	**278,718,087**
Financial assets at fair value through profit or loss	227,942	-	-	-	-	**227,942**
Due from other banks	267,319,860	604,322	-	-	-	**267,924,182**
Loans and advances to customers	262,128,136	472,324,411	455,231,907	798,490,897	473,744,687	**2,461,920,038**
Investment securities available for sale	61,020,731	-	-	-	-	**61,020,731**
Derivative financial instruments-asset						
- inflows	321,136,825	-	-	-	-	**321,136,825**
- outflows	(315,050,350)	-	-	-	-	**(315,050,350)**
Investment securities held to maturity	216,822,199	11,628,194	7,919,454	41,522,292	12,451,925	**290,344,064**
Other financial assets	5,536,799	-	-	-	-	**5,536,799**
Total Financial Assets	**1,654,899,047**	**484,556,927**	**463,151,361**	**840,013,189**	**486,196,612**	**3,928,817,136**
Liabilities						
Due to other banks	112,706,424	20,640,240	-	-	-	**133,346,664**
Customer Deposits						**-**
-Current Accounts	714,373,480					**714,373,480**
-Demand Savings	406,110,778					**406,110,778**
-Time Savings	269,169,964	504,372,788	280,246,060	57,996,516	-	**1,111,785,328**
Other borrowed funds	9,025,565	536,660,503	78,915,578	348,148,334	38,749,049	**1,011,499,028**
REPO arrangements	251,646,410	-	-	-	-	**251,646,410**
Subordinated debt	859,558	-	-	65,388,846	-	**66,248,404**
Other financial liabilities	23,356,806	-	-	-	-	**23,356,806**
Total Financial Liabilities	**1,787,248,984**	**1,061,673,531**	**359,161,638**	**471,533,696**	**38,749,049**	**3,718,366,898**
Liquidity gap arising from financial instruments	**(132,349,937)**	**(577,116,604)**	**103,989,723**	**368,479,493**	**447,447,563**	**210,450,238**
Accumulated Net Gap	**(132,349,937)**	**(709,466,541)**	**(605,476,818)**	**(236,997,325)**	**210,450,238**	

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

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

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

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

35 Management of Capital

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central BoM, namely the requirements of the deposit insurance system; to maintain the Bank's operations as a going concern and to maintain its capital base at the level necessary to ensure a 14% (2014:14%) capital adequacy ratio in accordance with the requirements set by the Bank of Mongolia. The control over compliance with the capital adequacy ratio set by the Bank of Mongolia is exercised daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Chief Financial Officer of the Bank.

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

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

	31 December 2015	**31 December 2014**
Core capital ratio	12.62%	12.74%
Risk weighted capital ratio	16.62%	17.06%

In thousands of Mongolian Tugriks	**31 December 2015**	**31 December 2014**
Tier I capital		
Ordinary shares	26,367,593	26,217,093
Share premium	46,583,557	44,699,421
Retained earnings	247,534,836	222,670,665
Other components of equity	4,581,064	529,793
Less: Investment in financial institutions 75%	(7,704,517)	(1,433,250)
Total Tier I Capital	**317,362,533**	**292,683,722**
Tier II capital		
Subordinated loans	69,859,300	65,996,000
Preferred shares	25,778,900	25,778,900
Revaluation fund	7,476,100	7,844,139
Less: Investment in financial institutions 25%	(2,568,172)	(477,750)
Total Tier II Capital	**100,546,128**	**99,141,289**
Total capital/capital base	**417,908,661**	**391,825,011**

Investment in financial institutions relate to investment in shares of financial institutions, which are dis-closed as investments available for sale in Note 12.

36 Contingencies and Commitments

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

In 2014, auditors from the Authority for Fair Competition and Consumer Protection released a report revealing that commercial banks violated the law by charging loan origination fee. However, the commercial banks won the dispute in the Court of First Instance. As of 31 December 2015, there are no litigations filed against commercial banks in the Supreme Court by the Authority for Fair Competition and Consumer Protection. Management has considered possibility of this government institution raising the claim at Supreme Court and concluded that risk of unfavourable outcome for commercial banks is remote.

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

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

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

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

As of 31 December 2015 and 31 December 2014, management has assessed that recognition of a provision for uncertain tax position is not necessary.

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

Compliance with covenants. The Bank is subject to certain covenants related to other borrowed funds obtained under a certain project. As disclosed in Notes 22, there were no breaches of covenants that would require immediate repayment of the borrowings as of 31 December 2015.

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

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

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

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Financial guarantees issued	77,016,536	58,502,772
Performance guarantees issued	79,058,179	84,783,581
Letters of credit	13,547,849	2,393,586
Undrawn credit lines	118,044,485	27,888,399
Total credit related commitments	**287,667,049**	**173,568,338**

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

The Bank has not recognized provision on credit related commitments as of 31 December 2015 and 31 December 2014, as the management is not aware of any losses incurred due to the deterioration of the financial conditions of the customers.

Assets pledged and restricted. Mandatory cash balances with the Bank of Mongolia in the amount of MNT 260,739,412 thousand as of 31 December 2015 (31 December 2014: MNT 278,718,087 thousand) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations (Note 8).

As of 31 December 2015, treasury bills in amount of MNT 174,204,274 thousands were collateralized by the Bank of Mongolia under REPO arrangement (refer to Note 13 and 23).

Correspondent accounts with other banks include current account of USD 100 million with a foreign bank, pledged as collateral for the loan obtained from the bank (refer to Note 10 and Note 23).

37 Derivative Financial Instruments

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

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

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

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- Financial assets at fair value through profit or loss	40,259,235	9,525,115
- Financial liabilities at fair value through profit or loss	(52,221)	(3,438,680)
Foreign exchange forwards and swaps , net fair value	**40,207,014**	**6,086,475**

37 Derivative Financial Instruments (continued)

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Assets		
Derivative held for trading-forward foreign currency exchange contract	40,207,014	6,086,475
Derivative financial instruments, net	**40,207,014**	**6,086,475**

Unrealized gain of MNT 34,120,539 thousand from derivatives held for trading-forward foreign currency exchange contracts include a long term SWAP with the Bank of Mongolia entered on 30 December 2015 maturing on 22 June 2017. This unrealised gain mostly relate day 1 gain on initial recognition of abovementioned long-term swap in the amount of MNT 29,472,969 due to favorable terms offered by the Bank of Mongolia. Remaining amount of gains relates to short term swaps.

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	323,084,446	287,457,705
- USD payable on settlement (-)	-	(37,104,196)
- MNT receivable on settlement (+)	-	33,335,455
- MNT payable on settlement (-)	(282,877,432)	(277,241,454)
- Other currencies receivable on settlement (+)	-	343,665
- Other currencies receivable on settlement (-)	-	(704,700)
Net fair value of foreign exchange forwards and swaps	**40,207,014**	**6,086,475**

38 Fair Value Disclosures

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

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

(a) Recurring fair value measurements

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

	2015				2014			
In thousands of Mongolian Tugriks	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Financial assets at fair value through profit or loss	5,410,038	-	-	5,410,038	227,942	-	-	227,942
Investment securities available for sale	530,073	-	67,557,942	68,088,015	422,284	-	60,598,447	61,020,731
Repossessed collateral	-	-	50,133,051	50,133,051	-	-	-	-
Other financial assets								
Financial derivatives	-	40,207,014	-	40,207,014	-	6,086,475	-	6,086,475
Non-financial assets								
Premises	-	-	145,418,730	145,418,730	-	-	59,928,997	59,928,997
Investment properties	-	-	1,209,050	1,209,050	-	-	1,209,050	1,209,050
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**5,940,111**	**40,207,014**	**264,318,773**	**310,465,898**	**650,226**	**6,086,475**	**121,736,494**	**128,473,195**

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

In thousands of Mongolian Tugriks	**2015 Fair value**	**2014 Fair value**	**Valuation technique**	**Inputs used**
Other financial assets				
Financial derivatives	40,207,014	6,086,475	Interest rate parity analysis	Inter-bank rates of each currency
Total recurring fair value measurements at level 2	**40,207,014**	**6,086,475**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2015 and 31 December 2014.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2015:

Financial assets

Investment securities available for sale, which are classified as level 3 for fair value measurement purposes, mostly relate to the Bank's investment in the investment units of the first investment fund established in Mongolia in the amount of MNT 58,000,000 thousand (refer to the Notes 3 and 12) apart from investment in MIK in amount of MNT 9,072,689 thousand which is disclosed in the table above. As this investment was made at the price available to other third-parties and there were no substantial changes in the Fund's operations since the purchase, management believes that this investment was purchased at market price and that the fair value of this investment as of 31 December 2015 and 31 December 2014 approximates its carrying value. For management's judgments on investment in this fund, refer to Note 3. Management believes that the fair value of remaining unquoted investments in available for sale investment securities is unlikely to be materially different from their carrying value as of 31 December 2015 and that current disclosures are sufficient from the perspective of the users of financial statements.

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

38 Fair Value Disclosures (continued)

If the market price of available for sale investment securities, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would in-crease/(decrease) by MNT 6,755,794 thousand (2014: MNT 6,059,845 thousand).

Repossessed financial assets, which are classified as level 3 for fair value measurement purposes, relate to the shares in two companies (refer to Note 19) acquired in the process of settlement of over-due loans. Fair value of the shares were determined using net asset approach based on comparable market data and discounted future cashflow.

If the market price of repossessed financial assets, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would increase/(decrease) by MNT 5,013,305 thousand (2014: Nil).

Non financial assets at 31 December 2015:

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Assets at fair value						
Non-financial assets						
Premises	145,418,730	Market value	Discounted cash flow	Comparable market data	10%	14,541,873
Investment properties	1,209,050	Market value	Discounted cash flow	Comparable market data	10%	120,905.03
Total recurring fair value measurements at level 3	**146,627,780**					**14,662,778**

Non financial assets at 31 December 2014:

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
Assets at fair value						
Non-financial assets						
Premises	59,928,997	Market value	Discounted cash flow	Comparable market data	10%	5,992,900
Investment properties	1,209,050	Market value	Discounted cash flow	Comparable market data	10%	120,905
Total recurring fair value measurements at level 3	**61,138,047**					**6,113,805**

There were no changes in valuation technique for level 3 recurring fair value measurements during the years ended 31 December 2015 and 31 December 2014.

There were no movements in and out of the categories during the years ended 31 December 2015 and 31 December 2014.

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

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

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

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

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with central bank (other than mandatory reserve)	**91,801,376**	**66,322,911**	**-**	**158,124,287**
Cash on hand	91,801,376	-	-	91,801,376
Current account with the Central bank	-	66,322,911	-	66,322,911
Mandatory cash balances with the Bank of Mongolia	**-**	**260,739,412**	**-**	**260,739,412**
Due from other banks	**-**	**349,234,005**	**-**	**349,234,005**
Correspondent accounts with other banks				**-**
Domestic	-	14,294,479	-	14,294,479
Foreign	-	334,909,196	-	334,909,196
Short term placements with other banks				**-**
Placements with other banks with original maturities of more than three months	-	30,329	-	30,329
Loans and advances to customers	**-**	**-**	**1,979,972,739**	**2,013,610,787**
Corporate loans	-	-	1,136,562,985	1,145,626,274
Loans to small and medium business	-	-	458,562,241	435,364,614
Consumer loans to individuals	-	-	186,970,856	188,612,514
Mortgage loans to individuals	-	-	197,876,657	244,007,385
Investment securities held to maturity	**-**	**592,831,917**	**-**	**592,831,917**
Other financial assets	**-**	**8,659,492**	**-**	**8,659,492**
Total financial assets carried at amortized cost	**91,801,376**	**1,277,787,736**	**1,979,972,739**	**3,383,199,900**

38 Fair Value Disclosures (continued)

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

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2014 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with central bank (other than mandatory reserve)	**100,567,560**	**456,471,258**	**-**	**557,038,818**
Cash on hand	100,567,560	-	-	100,567,560
Current account with the Central bank	-	456,471,258	-	456,471,258
Mandatory cash balances with the Bank of Mongolia	**-**	**278,718,087**	**-**	**278,718,087**
Due from other banks	-	267,954,182	-	267,954,182
Correspondent accounts with other banks				**-**
Domestic	-	12,050,621	-	12,050,621
Foreign	-	179,606,349	-	179,606,349
Short term placements with other banks				**-**
Domestic	-	75,658,290	-	75,658,290
Placements with other banks with maturities of more than three months	-	638,921	-	638,921
Loans and advances to customers	-	-	2,440,940,074	2,461,920,038
Corporate loans	-	-	1,102,001,120	1,115,010,995
Loans to small and medium business	-	-	526,696,390	530,867,910
Consumer loans to individuals	-	-	192,293,850	194,305,341
Mortgage loans to individuals	-	-	619,948,714	621,735,792
Investment securities held to maturity	**-**	**290,344,064**	**-**	**290,344,064**
Other financial assets	**-**	**5,536,799**	**-**	**5,536,799**
Total financial assets carried at amortized cost	**100,567,560**	**1,299,024,390**	**2,440,940,074**	**3,861,511,988**

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

In thousands of Mongolian Tugriks	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Financial Liabilities				
Due to other banks	**-**	**90,000,670**	**-**	**90,000,670**
Short-term placements of other banks	-	82,002,849	-	82,002,849
Long-term placement of other banks	-	7,997,821	-	7,997,821
REPO Agreements				
Sale and repurchase agreements with other banks	-	174,280,920	-	174,280,920
Customer Accounts				
State and public organisations	**-**	**162,535,506**	**-**	**168,050,747**
- Current/settlement accounts	-	67,034,331	-	67,034,331
- Demand deposits	-	42,350,036	-	42,350,036
- Term deposits	-	53,151,139		58,666,381
Legal entities	**-**	**521,211,600**	**-**	**523,711,258**
- Current/settlement accounts	-	354,736,353	-	354,736,353
- Demand deposits	-	25,944,869	-	25,944,869
- Term deposits	-	140,530,378	-	143,030,036
Individuals	**-**	**1,378,151,120**	**-**	**1,366,508,836**
- Current/demand accounts	-	77,921,381	-	77,921,381
- Demand deposits	-	290,801,245	-	290,801,245
- Term deposits	-	1,009,428,494	-	997,786,210
Other	**-**	**21,349,103**	**-**	**21,529,752**
- Current/demand accounts	-	10,500,043	-	10,500,043
- Demand deposits	-	1,145,985	-	1,145,985
- Term deposits	-	9,703,075	-	9,883,724
Other borrowed funds	**-**	**1,014,934,955**	**-**	**1,014,934,955**
Subordinated debt	**-**	**70,060,229**	**-**	**70,060,229**
Other financial liabilities	**-**	**9,083,242**	**-**	**9,083,242**
Total financial liabilities carried at amortized cost	**-**	**3,267,326,424**	**-**	**3,263,879,689**

38 Fair Value Disclosures (continued)

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

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2014 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	**-**	**132,298,468**	**-**	**133,346,664**
Short-term placements of other banks	-	27,038,904	-	27,038,904
Long-term placement of other banks	-	105,259,564	-	106,307,760
REPO Agreements				
Sale and repurchase agreements with other banks	-	251,646,410	-	251,646,410
Customer Accounts	**-**			
State and public organisations	**-**	**109,169,769**	**-**	**109,226,946**
- Current/settlement accounts	-	76,135,907		76,135,907
- Demand deposits	-	22,293,241		22,293,241
- Term deposits	-	10,740,621		10,797,798
Legal entities	**-**	**848,076,387**	**-**	**848,034,086**
- Current/settlement accounts	-	529,980,889	-	529,980,889
- Demand deposits	-	28,339,097	-	28,339,097
- Term deposits	-	289,756,401	-	289,714,100
Individuals	**-**	**1,251,344,624**	**-**	**1,251,639,366**
- Current/demand accounts	-	93,938,972	-	93,938,972
- Demand deposits	-	352,483,744	-	352,483,744
- Term deposits	-	804,921,908	-	805,216,650
Other	**-**	**23,346,959**	**-**	**23,369,188**
- Current/demand accounts	-	14,317,713	-	14,317,713
- Demand deposits	-	2,994,696	-	2,994,696
- Term deposits	-	6,034,550	-	6,056,779
Other borrowed funds	**-**	**1,011,499,028**	**-**	**1,011,499,028**
Subordinated debt	**-**	**66,248,404**	**-**	**66,248,404**
Other financial liabilities	**-**	**23,356,806**	**-**	**23,356,806**
Total financial liabilities carried at amortized cost	**-**	**3,465,340,445**	**-**	**3,466,720,488**

39 Presentation of Financial Instruments by Measurement Category

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

Held to maturity presentation class includes 1) loans and receivables and 2) held to maturity measurement classes. Thus, certain held-to-maturity investment securities disclosed in Note 13 (government bonds and treasury bills) are treated as loans and receivables and are disclosed as such in the table below.

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

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

39 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2014:

In thousands of Mongolian Tugriks	Loans and receivables	Available for sale financial assets	Assets designated at FVTPL	Trading assets	Held to maturity	Total
Financial assets						
Cash and balances with central bank (other than mandatory reserve)	**557,038,818**	**-**	**-**	**-**	**-**	**557,038,818**
Cash on hand	100,567,560	-	-	-	-	100,567,560
Current account with the central bank	456,471,258	-	-	-	-	456,471,258
Mandatory cash balances with the Bank of Mongolia	**278,718,087**	**-**	**-**	**-**	**-**	**278,718,087**
Financial assets at fair value through profit or loss	**-**	**-**	**227,942**	**-**	**-**	**227,942**
Due from other banks	**267,924,182**	**-**	**-**	**-**	**-**	**267,924,182**
Correspondent accounts with other banks						
Domestic	12,050,621	-	-	-	-	12,050,621
Foreign	179,606,349	-	-	-	-	179,606,349
Short term placements with other banks						
Domestic	75,658,290	-	-	-	-	75,658,290
Placements with other banks with maturities of more than three months	608,922	-	-	-	-	608,922
Loans and advances to customers	**2,461,920,038**	**-**	**-**	**-**	**-**	**2,461,920,038**
Corporate loans	1,115,010,995	-	-	-	-	1,115,010,995
Loans to small and medium business	530,867,910	-	-	-	-	530,867,910
Consumer loans to individuals	194,305,341	-	-	-	-	194,305,341
Mortgage loans to individuals	621,735,792	-	-	-	-	621,735,792
Investment securities available for Sale	**-**	**61,020,731**	**-**	**-**	**-**	**61,020,731**
Investment securities held to maturity	**275,559,564**	**-**	**-**	**-**	**14,784,500**	**290,344,064**
Derivative financial instruments	**-**	**-**	**-**	**6,086,475**	**-**	**6,086,475**
Other financial assets:	**5,536,799**	**-**	**-**	**-**	**-**	**5,536,799**
Receivables on cash and settlements services	1,351,020	-	-	-	-	1,351,020
Receivable from individuals	596,627	-	-	-	-	596,627
Receivable from companies	193,774	-	-	-	-	193,774
Other	3,395,378	-	-	-	-	3,395,378
Total Financial Assets	**3,846,697,488**	**61,020,731**	**227,942**	**6,086,475**	**14,784,500**	**3,928,817,136**

As of 31 December 2015 and 31 December 2014, all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

40 Related Party Transactions

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

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

Related party categories are as follows:

Golomt Financial Group LLC	Main shareholder of the Bank
Bodi International LLC	Previous main shareholder of the Bank prior to the transfer of the Bank to Golomt Financial Group. Following the transfer it remains related party as it has the same major shareholder as Golomt Financial Group.
Other	Subsidiaries of Bodi International LLC and Golomt Financial Group
Directors and key management personnel	The Board of Directors and executive managers of the Bank

For information on the Bank's immediate and ultimate parent company, as well as ultimate controlling party as of 31 December 2015 and 31 December 2014, refer to Note 1.

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

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Gross amount of loans and advances to customers (contractual interest rate 6% - 23.4%)	3,598,719	-	-	-	71,798,457	**75,397,176**
Investment in subsidiaries	-	-	-	1,200,000	-	**1,200,000**
Derivative financial instrument (notional amount: MNT 69,859,300)	-	-	9,437,804	-	-	**9,437,804**
Customer accounts (contractual interest rate 0% - 15.6%)	826,292	3,013	280,795	34,977	873,716	**2,018,792**
Subordinated debts (contractual interest rate 6% - 6.5%)	-	-	70,060,229	-	-	**70,060,229**

At 31 December 2014, the outstanding balances with related parties were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Gross amount of loans and advances to customers (contractual interest rate 6% - 22%)	1,180,225	18,070,000	-	-	43,930,806	**63,181,031**
Investment in subsidiaries	-	-	-	200,000	-	**200,000**
Derivative financial instrument (notional amount: MNT 65,996,000)	-	-	3,608,452	-	-	**3,608,452**
Customer accounts (contractual interest rate 0% - 10.8%)	1,556,442	67,382,415	493,217	186,299	1,891,620	**71,509,993**
Subordinated debts (contractual interest rate 4.5% - 6%)	-	-	66,248,404	-	-	**66,248,404**

40 Related Party Transactions (continued)

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

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Contractual interest rate	**6%-23.4%**	**15%**	**N/A**	**N/A**	**10%-21.6%**	
Loans to customers						
Loans to customers as at 1 January (gross)	2,052,916	18,070,000	-	-	75,893,677	**96,016,593**
Loans to customers issued during the year	3,214,266	5,102,346	-	-	57,526,456	**65,843,068**
Loans to customers repaid during the year	(1,674,499)	(23,161,324)	-	-	(63,255,535)	**(88,091,357)**
Exchange difference	6,036	(11,022)	-	-	1,633,858	**1,628,873**
Loans to customers as at 31 December (gross)	**3,598,719**	**-**	**-**	**-**	**71,798,457**	**75,397,176**

In above disclosure, the balances as of 1 January 2015 includes a loan in amount of MNT 31,962,871 thousand provided to a company who became related party of the Bank in 2015.

Movement in the loans and advances to related party at 31 December 2014 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Contractual interest rate	**6%-14%**	**N/A**	**N/A**	**N/A**	**10%-22%**	
Loans to customers						
Loans to customers as at 1 January (gross)	1,231,480	-	-	-	24,927,907	**26,159,387**
Loans to customers issued during the year	1,252,699	35,829,150	-	-	40,281,974	**77,363,823**
Loans to customers repaid during the year	(968,484)	(18,066,925)			(22,801,756)	**(41,837,165)**
Exchange difference	(335,470)	307,775	-	-	1,522,681	**1,494,986**
Loans to customers as at 31 December (gross)	**1,180,225**	**18,070,000**	**-**	**-**	**43,930,806**	**63,181,031**

The Bank has not recognized any provision for impairment on loans issued to its related parties as of 31 December 2015 and 31 December 2014, as management believes that such provision is not necessary.

Loans issued to key management are issued at preferential rates, as it is the case with loans issued to the Bank's employees (refer to Note 16). The terms offered to key management are not substantially different from those offered to other employees. 3

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

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Contractual interest rate	**0%-15.2%**	**0%-13.8%**	**0%-1.2%**	**0%**	**0%-15.6%**	
Customer accounts						
Customer accounts as at 01 January 2015	1,556,442	67,382,415	493,217	186,299	1,891,620	**71,509,993**
Customer accounts received during the year	13,024,410	528,936,738	77,600,264	38,779,881	409,363,005	**1,067,704,298**
Customer accounts repaid during the year	(13,829,428)	(596,973,715)	(77,859,568)	(38,928,161)	(410,485,086)	**(1,138,075,959)**
Exchange difference	74,868	657,575	46,882	(3,041)	104,177	**880,461**
Customer accounts as at 31 December 2015	**826,292**	**3,013**	**280,795**	**34,977**	**873,716**	**2,018,792**

The customer accounts balances at the year end and transactions with related parties for 2014 are as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Contractual interest rate	**0%-8%**	**0%-11%**	**0%-4%**	**0%**	**0%-10.8%**	
Customer accounts						
Customer accounts as at 01 January 2014	787,781	1,811,576	-	344,335	3,513,538	**6,457,230**
Customer accounts received during the year	13,139,282	509,462,491	49,140,649	14,202,560	298,672,810	**884,617,792**
Customer accounts repaid during the year	(12,278,488)	(444,060,625)	(48,651,337)	(14,387,576)	(300,246,931)	**(819,624,957)**
Exchange difference	(98,780)	168,973	3,905	26,980	(47,797)	**53,281**
Salary current account	6,647	-	-	-	-	**6,647**
Customer accounts as at 31 December 2014	**1,556,442**	**67,382,415**	**493,217**	**186,299**	**1,891,620**	**71,509,993**

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

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Interest income	140,377	1,541,461	-	-	8,782,705	**10,464,544**
Interest expense	65,594	4,089,810	3,550,150	1,634	140,594	**7,847,782**
Fee and commission income	1,785	3,412	242	886	25,267	**31,592**

The income and expense items with related parties for the year ended 31 December 2014 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Interest income	55,514	1,222,522	-		1,558,820	**2,836,856**
Interest expense	87,928	966,123	1,655,554	7,455	132,811	**2,849,871**
Fee and commission income	75,467	31,011	600	639	31,068	**138,785**

40 Related Party Transactions (continued)

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

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

Capital purchases made between related parties for the year ended 31 December 2014 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Buildings	-	-	-	-	18,128,908	**18,128,908**

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

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

Cost of services received as of the year ended 31 December 2014 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Bodi International	Golomt Financial Group	Golomt Securities LLC	Other	Total
Buildings	-	-	-	-	7,273,572	**7,273,572**

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

In thousands of Mongolian Tugriks	31 December 2015	31 December 2014
Guarantee		
Bank guarantees as at 01 January	-	19,651,899
Guarantees issued / exchange revaluation	21,065	-
Guarantee closed	-	19,651,899
Bank guarantees as at 31 December 2015	**21,065**	**-**

Key Board of Directors and management compensation is presented below:

In thousands of Mongolian Tugriks	2015	2014
Salaries	1,777,147	1,036,008
Bonuses	105,610	604,820
Social security contributions	197,668	180,491
Termination benefit	-	8,400
TOTAL	**2,080,424**	**1,829,719**

Directors and key management personnel mainly represent members of the Bank's Board of Directors and Executive Board.
Other related parties are mostly represented by companies controlled by the Bank's major shareholders and the Bank.

41 Share-Based payments

The expense recognised for employee services received during the year is shown in the following table:

In thousands of Mongolian Tugriks	2015	2014
Expense arising from equity-settled		
Share-based option transactions	-	333,349

	2015		2014	
In thousands of Mongolian Tugriks	**Number of share options**	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at the beginning of the year	285,250	5,701	792,100	4,565
Granted during the year	-	-	-	-
Expired during the year	(134,750)	5,702	(338,950)	3,970
Exercised during the year	**(150,500)**	**5,702**	**(167,900)**	**3,834**
Outstanding at the end of the year	**-**	**-**	**285,250**	**5,701**

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

42 Events after the End of the Reporting Period

On 14 January 2016, Bank of Mongolia decreased the policy rate from 13% to 12%.

In January 2016 the bank repaid MNT 175,000,000 thousand of borrowing received from the Bank of Mongolia.

Management is not aware of other events that occurred after the end of the reporting period until 22 March 2016, which would have any impact on these financial statements.

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