TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Financial Statements

31 December 2017 and 2016

(With Independent Auditors' Report Thereon)

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Trade and Development Bank of Mongolia LLC

Corporate Information

Registered office and principal place of business	Peace Avenue 19 Sukhbaatar district, 1st khoroo Ulaanbaatar, 14210 Mongolia
Board of Directors	D.Erdenebileg (Chairman) R.Koppa D.Gantugs T.Tsolmon Z.Shagdarsuren J.Bolormaa J.Delgersaikhan
Secretary of Bank	D. Davaajav
Independent auditors	KPMG Samjong Accounting Corp. Seoul, Korea

Statement by Directors and Executives

We, D. Erdenebileg, R. Koppa and O. Orkhon, being the directors and executives of Trade and Development Bank of Mongolia LLC (the "Bank"), and D. Yanjmaa, being the officer primarily responsible for the consolidated financial statements of the Bank and its subsidiaries (together the "Group"), do hereby state that, in our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and 2016 and of its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.

D. Erdenebileg
Chairman

R. Koppa
Director–Executive Vice Chairman

O. Orkhon
Chief Executive Officer

D. Yanjmaa
Director of Financial Management and Control Department

Ulaanbaatar, Mongolia

Date: 28 February 2018

KPMG SAMJONG

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Independent Auditors' Report

The Board of Directors and Shareholders
Trade and Development Bank of Mongolia LLC:

Opinion

We have audited the accompanying consolidated financial statements of Trade and Development Bank of Mongolia (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statements of financial position as at 31 December 2017 and 2016, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and 2016, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as modified by Bank of Mongolia ("BOM") guidelines.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mongolia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

We draw attention to Note 39 to the consolidated financial statements, which describes that in May 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility for Mongolia to support the country's economic reform program. As part of the program, the Bank of Mongolia commissioned Diagnostic Studies on Commercial Banks in Mongolia including an Asset Quality Review (AQR). The AQR was performed predominantly based on version 2 of the European Central Bank's AQR Manual, as localised by the Bank of Mongolia in several areas. Preliminary summary results were informed to each commercial bank in January 2018. As at the date of approval of these financial statements, final results of the AQR and stress test are pending, and the full implications of the assessment on the Mongolian financial sector and for the Bank specifically are as yet unclear. This creates a significant uncertainty in market, regulatory, credit and other risks including related implications for capital adequacy, and in the Bank's future exposure to such risks, the implications of which will only be realised with time. The financial impact resulting from this AQR and stress test on the Group's financial statements cannot be reasonably estimated at this time, therefore no adjustments for this matter have been recorded to the Group's consolidated financial statements. Our opinion is not modified in respect of this matter.

Emphasis of Matters (continued)

We draw attention to Note 42 to the consolidated financial statements. In February 2017, the Parliament of Mongolia issued a resolution on the acquisition of 49% stake in Erdenet Mining Corporation LLC by Mongolian Copper Corporation LLC (MCC), where the Group provided financing to MCC. At this time, there is uncertainty regarding the potential impact to the Group. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for loan losses

Refer to Note 7 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Under IFRS as modified by BOM guidelines, the Group is required to determine the classification of loans and provisions considering quantitative and qualitative factors. This allowance for loan losses was significant to our audit because the balance of MNT 267,932,462 thousand as of 31 December 2017, is material to the consolidated financial statements. In addition, the Group's assessment process is complex and requires significant judgments and is based on quantitative factors such as delinquency and qualitative factors such as a borrower's financial and economic status.	Our audit procedures included, among others, performing credit file reviews on a sample basis to test appropriateness of the loan classification. We tested the accuracy of the delinquency information by testing relevant IT application controls and tested the Group's assessment of the qualitative factors by challenging key assumptions applied by the Group and comparing the Group's classification against our understanding of the relevant industries and business environment, and the requirements of the Bank of Mongolia's Provisioning Guidelines.

Construction-in-progress

Refer to Note 10 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Construction in progress is significant to our audit because the balance of MNT 142,820,691 thousand as of 31 December 2017, is material to the financial statements.	Our audit procedures included interviews with the Group's management and the management of the Group's contractor responsible for the construction in order to understand the status of the construction-in-progress, and inspection of the construction contract, payment evidence, external confirmation of payments made, the progress of the construction including the detailed construction project plans and the status of obtaining required permits for construction.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as modified by BOM guidelines and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

This report is made solely to the members of the Group, as a body, those in connection with the potential offering of US$ notes by the Group, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The engagement partner on the audit resulting in this independent auditors' report is Wang-Moon, Kim.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
28 February 2018

This report is effective as at 28 February 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Financial Position

As at 31 December 2017 and 2016

	Note	2017 MNT'000	2016 MNT'000
Assets			
Cash and due from banks	4	1,073,933,382	1,188,822,410
Investment securities	5	2,026,286,707	1,525,435,217
Investment in associates and joint ventures	6	60,841,264	59,490,789
Loans and advances, net	7	2,764,974,569	2,835,167,306
Bills purchased under resale agreements	8	11,981,945	-
Subordinated loans	9	-	4,000,000
Property and equipment, net	10	324,138,590	333,559,483
Intangible assets, net	11	2,587,186	5,048,116
Investment property	12	91,951,413	88,923,950
Foreclosed real properties, net	13	2,808,306	2,194,609
Other assets	14	515,421,954	602,543,026
Total assets		6,874,925,316	6,645,184,906
Liabilities and shareholders' equity			
Liabilities			
Deposits from customers	15	3,070,233,636	2,415,529,106
Deposits and placements by banks and other financial institutions	16	243,907,591	143,207,671
Bills sold under repurchase agreements	17	129,960,388	129,960,388
Borrowings	18	1,068,669,444	1,392,176,891
Current tax liabilities		20,303	1,524,308
Debt securities issued	19	1,344,633,676	1,569,366,930
Subordinated debt issued	20	-	24,895,300
Other liabilities	21	141,967,647	209,373,587
Total liabilities		5,999,392,685	5,886,034,181
Equity			
Share capital	22	50,000,011	50,000,011
Share premium		19,272,456	19,272,456
Capital adjustments	24	-	(1,583,600)
Revaluation reserves	10, 25	130,014,323	126,992,124
Accumulated unrealised gain on available-for-sale financial assets	25	13,721,669	30,219,254
Accumulated unrealised gain on valuation of cash flow hedges	25	72,371,681	14,905,402
Retained earnings		590,152,491	516,572,740
Total equity attributable to equity holders of the Group		875,532,631	756,378,387
Non-controlling interests		-	2,772,338
Total equity		875,532,631	759,150,725
Total liabilities and equity		6,874,925,316	6,645,184,906

See accompanying notes to the consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended 31 December 2017 and 2016

	Note	2017 MNT'000	2016 MNT'000
Interest income	26	612,882,220	593,217,355
Interest expense	27	(434,121,831)	(400,832,691)
Net interest income		178,760,389	192,384,664
Net fee and commission income	28	37,039,956	30,618,600
Other operating income, net	29	47,974,223	12,021,005
Net non-interest income		85,014,179	42,639,605
Operating income		263,774,568	235,024,269
Operating expense	30	(89,930,081)	(92,650,037)
Share of profit of associates and joint ventures	6	15,858,850	17,296,485
Provision for impairment losses	31	(115,562,031)	(91,997,632)
Profit before tax		74,141,306	67,673,085
Income tax expense	33	(381,360)	(212,876)
Net profit for the year		73,759,946	67,460,209
Other comprehensive income for the year:			
Items that will never be reclassified to profit or loss			
Net change in revaluation reserves of property and equipment	10, 25	3,022,199	(7,317,887)
Items that are or may be reclassified to profit or loss			
Net unrealised change in fair value of available-for-sale financial assets	25	(16,497,585)	54,050,383
Net unrealised gain (loss) on valuation of cash flow hedges	25	57,466,279	(25,032,960)
Other comprehensive income		43,990,893	21,699,536
Total comprehensive income for the year		117,750,839	89,159,745
Profit attributable to:			
Equity holders of the Group		73,759,946	67,965,541
Non-controlling interests		-	(505,332)
Net profit for the year		73,759,946	67,460,209
Total comprehensive income attributable to:			
Equity holders of the Group		117,750,839	89,665,077
Non-controlling interests		-	(505,332)
Total comprehensive income for the year		117,750,839	89,159,745

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

For the years ended 31 December 2017 and 2016

Attributable to equity holders of the Group (Unit : MNT'000)

	Note	Share capital	Share premium	Capital adjustment	Revaluation reserves	Accumulated unrealised gain(loss) on available-for-sale financial assets	Accumulated unrealised gain on valuation of cash flow hedges	Retained earnings	Total	Non-controlling interests	Total equity
1 January 2017		50,000,011	19,272,456	(1,583,600)	126,992,124	30,219,254	14,905,402	516,572,740	756,378,387	2,772,338	759,150,725
Total comprehensive income									-		-
Net profit for the year		-	-	-	-	-	-	73,759,946	73,759,946	-	73,759,946
Other comprehensive income		-	-	-	-	-	-	-	-	-	-
Net unrealised change in fair value of available-for-sale financial assets	25	-	-	-	-	(16,497,585)	-	-	(16,497,585)	-	(16,497,585)
Net change in revaluation reserves of property and equipment	10, 25	-	-	-	3,022,199	-	-	-	3,022,199	-	3,022,199
Net unrealised loss on valuation of cash flow hedges	25	-	-	-	-	-	57,466,279	-	57,466,279	-	57,466,279
Total other comprehensive income		-	-	-	3,022,199	(16,497,585)	57,466,279	-	43,990,893	-	43,990,893
Other											
Change in consolidation scope, etc.,	24	-	-	1,583,600	-	-	-	(180,195)	1,403,405	(2,772,338)	(1,368,933)
31 December 2017		50,000,011	19,272,456	-	130,014,323	13,721,669	72,371,681	590,152,491	875,532,631	-	875,532,631

See accompanying notes to the consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity, Continued

For the years ended 31 December 2017 and 2016

(Unit : MNT'000)

	Note	Attributable to equity holders of the Group: Share capital	Share premium	Capital adjustment	Revaluation reserves	Accumulated unrealised gain(loss) on available-for-sale financial assets	Accumulated unrealised gain on valuation of cash flow hedges	Retained earnings	Total	Non-controlling interests	Total equity
1 January 2016		50,000,011	19,272,456	-	135,298,874	(23,831,129)	39,938,362	445,209,993	665,888,567	2,043,974	667,932,541
Total comprehensive income											
Net profit for the year		-	-	-	-	-	-	67,965,541	67,965,541	(505,332)	67,460,209
Other comprehensive income											
Net unrealised change in fair value of available-for-sale financial assets	25	-	-	-	-	54,050,383	-	-	54,050,383	-	54,050,383
Net change in revaluation reserves of property and equipment	10, 25	-	-	-	(8,306,750)	-	-	988,863	(7,317,887)	-	(7,317,887)
Net unrealised loss on valuation of cash flow hedges	25	-	-	-	-	-	(25,032,960)	-	(25,032,960)	-	(25,032,960)
Total other comprehensive income		-	-	-	(8,306,750)	54,050,383	(25,032,960)	988,863	20,699,536	-	21,699,536
Transactions with shareholders											
Change due to business combination		-	-	-	-	-	-	586,060	586,060	2,814,643	3,400,703
Subsidiary's acquisition of treasury shares	24	-	-	(1,583,600)	-	-	-	-	(1,583,600)	-	(1,583,600)
Other changes		-	-	-	-	-	-	1,822,283	1,822,283	(1,580,947)	241,336
31 December 2016		50,000,011	19,272,456	(1,583,600)	126,992,124	30,219,254	14,905,402	516,572,740	756,378,387	2,772,338	759,150,725

See accompanying notes to the consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended 31 December 2017 and 2016

	Note	2017 MNT'000	2016 MNT'000
Cash flows from operating activities:			
Net profit for the year		73,759,946	67,460,209
Adjustments for:			
Depreciation and amortisation	10, 11, 30	9,605,279	12,310,763
Share of profit of associates and joint ventures	6	(15,858,850)	(17,296,485)
Gain on disposal of securities	29	(14,168,548)	(21,827,163)
Gain on disposal of investment in associates and joint ventures	29	(8,556,355)	(8,907,904)
Net interest income	26, 27	(178,760,389)	(192,384,664)
Income tax expense	33	381,360	212,876
Loss (gain) on disposal of property and equipment	29	(4,868)	9,348
Loss on disposal of investment property	29	-	1,252,400
Property and equipment written off	30	140,534	9,380
Investment property written off	30	-	1,151,774
Provision for impairment losses	31	115,562,031	91,997,632
Valuation loss (gain) on investment property	12, 29	(3,027,463)	7,792,650
Valuation loss (gain) on Property and equipment	11, 30	(117,643)	-
Personnel expense	30	-	404,458
Operating profit before changes in operating assets and liabilities:		(21,044,966)	(57,814,726)
Increase in balances with BOM	4, 35	(70,864,203)	(746,435)
Increase in loans and advances		(45,631,007)	(343,124,012)
Decrease (Increase) in bills purchased under resale agreement	8	(11,981,945)	99,799,000
Decrease in subordinated loan	9	4,000,000	-
Decrease (Increase) in other assets(*)	14	176,213,881	(194,115,525)
Increase in deposits from customers	15	654,704,530	205,575,643
Increase in deposits and placements by banks and other financial institutions	16	100,699,920	30,452,699
Decrease in other liabilities(*)	21	(60,443,040)	(42,727,799)
Interest received		579,971,677	548,122,973
Interest paid		(435,529,091)	(379,865,380)
Income taxes paid		(374,540)	(3,074,551)
Net cash flows provided by (used in) operating activities		869,721,216	(137,518,113)
Cash flows from investing activities:			
Purchase of investment securities	5	(734,444,700)	(373,254,578)
Disposal of investment securities	5	231,267,801	344,557,792
Purchase of investment in associates and joint ventures	6	-	(292,383)
Disposal of investment in associates and joint ventures	6	24,387,146	13,769,849
Proceeds from disposal of Investment properties	12	-	161,600
Purchase of property and equipment	10	(3,980,119)	(146,672,015)
Proceeds from disposal of property and equipment	10	7,710	420,866
Purchase of intangible assets	11	(446,628)	(5,436,596)
Proceeds from disposal of foreclosed real properties	13	-	618,077
Net cash flows used in investing activities		(483,208,790)	(166,127,388)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows, Continued

For the years ended 31 December 2017 and 2016

	Note	2017 MNT'000	2016 MNT'000
Cash flows from financing activities:			
Net proceeds from bills sold under repurchase agreements	17	-	30,161,388
Proceeds from borrowings	18	529,125,941	1,040,459,826
Repayments of borrowings	18	(851,763,044)	(660,677,024)
Proceeds from debt securities issued	19	9,978,539	482,023,478
Repayments of debt securities issued	19	(234,711,793)	(88,577,893)
Repayment of from subordinated debt issued	20	(24,895,300)	(5,044,400)
Subsidiary's acquisition of treasury shares	24	-	(1,583,600)
Net cash flows provided by (used in) financing activities		(572,265,657)	796,761,775
Net Increase (decrease) in cash and cash equivalents		(185,753,231)	493,116,274
Cash and cash equivalents at beginning of year		891,288,457	398,172,183
Cash and cash equivalents at end of year	35	705,535,226	891,288,457

(*) Represents fluctuation of other assets and other liabilities other than changes in accrued interest receivables and accrued interest payables, respectively.

See accompanying notes to the consolidated financial statements.

1 Organisation and business

Trade and Development Bank of Mongolia LLC (the "Bank"), the controlling company, and its subsidiaries included in consolidation (together the "Group") are summarised as follows:

Controlling company

The Bank is a Mongolian domiciled limited liability company, incorporated in accordance with the Company Law of Mongolia. The Bank was given special permission to conduct banking activities by Decree No.3/149 issued by the President of the Bank of Mongolia ("BOM") on 29 May 1993 in accordance with the Banking Law of Mongolia, and License No.8 was renewed by BOM on 27 February 2002.

Pursuant to the aforementioned resolutions, license and charter, the Bank conducts banking activities such as cash savings, lending, handling and settlements of cash transfers, foreign currency transactions and other banking activities through its 23 branches and 28 settlement centers.

The direct parent company of the Bank is Globull Investment and Development SCA ("Globull"), owns a 65.83% interest in the Bank and is incorporated in Luxembourg. Globull is wholly owned by US Global Investment LLC ("US Global"), which is incorporated in the United States of America.

Subsidiary included in consolidation

(i) TDB Capital LLC

The Group established TDB Capital LLC ("TDBC"), a wholly owned subsidiary, on 14 August 2008. TDBC is a Mongolian domiciled limited liability company incorporated in accordance with the Company Law of Mongolia and may be engaged in financial services activities within the parameters set forth in the Company Law, Civil Law and Law of Security Market of Mongolia and other relevant laws and regulations and those activities include, but are not limited to, brokerage and underwriting services to various customers.

Condensed financial information of subsidiary as at 31 December 2017 and 2016, and for the years ended 31 December 2017 and 2016 were as follows:

	2017 MNT'000		**2016 MNT'000**	
Subsidiaries	Asset	Liability	Asset	Liability
TDB Capital LLC	39,274,828	7,658,573	39,188,526	6,095,058

	2017 MNT'000		**2016 MNT'000**	
Subsidiaries	Operating revenue	Net income	Operating revenue	Net Income
TDB Capital LLC	1,649,325	1,240,529	1,403,632	618,589

1 Organisation and business (continued)

Associates and joint ventures

(i) Mongol General Leasing LLC

Mongol General Leasing LLC ("MGLL") is a joint venture among the Bank, TDB Capital LLC and MG Leasing Corporation of Japan and sole shareholder of TDB Leasing LLC. MGLL is formed to be a commercial company pursuing for-profit business objectives within the scope of the Shareholder's Agreement entered into by the shareholders on 11 June 2013 and to be guided by the Civil Code of Mongolia, the company law of Mongolia and other related laws and regulations of Mongolia.

Scope of activities that the company conducts as permitted by the Applicable Law are providing financial leasing and providing business consultancy service.

(ii) MIK Holding JSC

Mongolian Mortgage Corporation HFC LLC was founded in 2008 under the category of "Special Purpose Company A". MIK Holding JSC is the parent company of Mongolian Mortgage Corporation HFC LLC.

The main purpose of the company is to issue Mortgage Backed Securities in domestic and international markets, develop primary and secondary markets for mortgages, provide the Mongolian population with housing and further create a long-term financing system aimed at building modern cities.

(iii) National News Corporation LLC

National News Corporation LLC ("NNC", formerly TDB Media LLC) was established in 2011.The Group has been cooperating with Bloomberg L.P. to broadcast international financial news through NNC, which is a media company licensed by the Mongolia Telecommunication Regulatory Commission to operate Bloomberg TV Mongolia in Ulaanbaatar since 2011. On 19 November 2013, the Group obtained control of TDB Media LLC ("TDBM"). In March 2016, TDBM merged with NNC by newly issuing 340,400 ordinary shares. After the business combination, TDBM changed its name to NNC. In September 2017, NNC newly issued 1,746,900 ordinary shares where the Group lost control over NNC as the Bank and TDB Capital LLC did not participate in the capital injection. After the capital injection, the Group still has significant influence over NNC.

1 Organisation and business (continued)

The Group's subsidiaries, associates and joint ventures as of 31 December 2017 and 2016 were as follows:

Parent	Name	Classification	Group's Ownership (%)		Location	Reporting date	Industry
			2017	2016			
The Bank	TDB Capital LLC	Subsidiary	100.00	100.00	Mongolia	31 December	Finance
	NNC(*1)	Associate	38.64	75.89	Mongolia	31 December	Media
	MGLL(*2)	Joint venture	55.00	55.00	Mongolia	31 December	Finance
	MIK Holding JSC(*3)	Associate	21.85	31.27	Mongolia	31 December	Mortgage
	JCDecaux LLC(*4)	-	-	49.00	Mongolia	31 December	Marketing
	Times Media Corporation LLC(*4)	-	-	100.00	Mongolia	31 December	Media
	NNC UB Omnimedia LLC(*4)	-	-	51.00	Mongolia	31 December	Media
	ZGMMedeelel LLC(*4)	-	-	100.00	Mongolia	31 December	Publishing

(*1) The Bank acquired 9% and TDB Capital LLC acquired 66.89% equity interest of NNC LLC, respectively as at 31 December 2016. The Bank acquired 4.58% and TDB Capital LLC acquired 34.06% equity interest of NNC LLC, respectively as at 31 December 2017. In 2017, as a result of non-proportionate capital injection, NNC has been changed from Subsidiary to Associate
(*2) The Bank acquired 10% and TDB Capital LLC acquired 45% equity interest.
(*3) In 2017, the Bank sold 9.42% equity interest of MIK Holding JSC shares and the Group's ownership interest in MIK Holding JSC decreased to 21.85%.
(*4) In 2017, as a result of losing control over NNC, these entities were excluded from subsidiary and associate.

2 Basis of preparation

Statement of compliance

The accompanying financial statements are consolidated financial statements that have been prepared in accordance with International Financial Reporting Standards ("IFRS") as modified by the BOM guidelines.

The major items modified by the BOM guidelines that are not in compliance with IFRS include the following, and the details are included in the corresponding notes:

- Allowance for loan loss reserves, receivables, letters of credit, unused credit commitments, unfunded syndicated and foreclosed properties
- Accounting for deferred tax

The consolidated financial statements were authorised for issue by the Board of Directors on 28 February 2018.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments that are measured at fair value
- Available-for-sale financial assets that are measured at fair value
- Certain property and equipment that are measured at fair value subsequent to acquisition
- Investment property that is measured at fair value
- Precious metal that is measured at fair value

Functional and presentation currency

These consolidated financial statements are presented in Mongolian Togrog ("MNT"), rounded to the nearest thousand. MNT is the Group's functional currency.

Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments of the Group in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are allowance for loan losses, valuation of financial instruments, and valuation of property and equipment and investment property.

3 Significant accounting policies

The accounting policies set out below have been consistently applied by the Group and are consistent with those used in previous years.

Basis of consolidation

(i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Intra-group transactions eliminated on consolidation

Intra-group balances, transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognised as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

(iv) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interests holders, even when the allocation reduces the non-controlling interests balance below zero.

3 Significant accounting policies (continued)

Business combination

(i) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value.

As at the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Goodwill

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognised immediately in profit or loss.

When the Group additionally acquires non-controlling interest, the Group does not recognise goodwill since the transaction is regarded as equity transaction.

3 Significant accounting policies (continued)

Investment in associates and joint ventures

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in an associate and a joint venture is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognised as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

However, foreign currency differences arising from the translation of available-for-sale equity investment (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss), are recognised in OCI.

3 Significant accounting policies (continued)

Financial instruments

(i) Classification

Financial assets and financial liabilities held for trading include debt securities, equity securities and securities acquired and held by the Group for short-term trading purposes. Changes in fair value are recognised in profit or loss.

Derivatives recorded at fair value through profit or loss include certain derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Financial assets or financial liabilities at fair value through profit or loss include those financial assets and financial liabilities designated at initial recognition because 1) such designation eliminates or significantly reduces an accounting mismatch; 2) respective financial assets and financial liabilities are part of a group of financial assets, liabilities or both and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or 3) the embedded derivative does not meet the separation criteria. Financial assets and financial liabilities at fair value through profit or loss are recorded at fair value and changes in fair value are recorded in the current operations.

Originated loans and receivables are loans and receivables created by the Group providing money to a debtor other than those created with the intention of short-term trading. Originated loans and receivables comprise loans and advances to customers and are reported net of an allowances to reflect the estimated recoverable amounts. The allowance is estimated in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the President of BOM and the Ministry of Finance.(BOM Provisioning Guidelines)

Held-to-maturity assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity, and are not designated at fair value through profit or loss or as available-for-sale. This includes certain investment securities held by the Group.

Available-for-sale assets are non-derivative assets that are designated as available-for-sale or are not classified as another category of financial assets.

(ii) Initial recognition

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue if the financial assets are not subsequently accounted for at fair value through profit or loss. For financial assets at FVTPL, directly attributable transaction costs are recognised in profit or loss as incurred.

3 Significant accounting policies (continued)

Financial instruments (continued)

(iii) Subsequent measurement

Subsequent to initial recognition, all financial assets and liabilities held for trading, derivatives recorded at fair value through profit or loss, financial assets and liabilities at fair value through profit or loss and available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is carried at cost, including transaction costs, less impairment losses. Gains and losses arising from changes in the fair value of trading instruments and available-for-sale assets are recognised in profit or loss and directly in equity, respectively.

All non-trading financial liabilities, originated loans and receivables, and held-to-maturity assets are measured at amortised cost less impairment losses where applicable. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Derecognition of financial assets and liabilities

(i) Financial assets

The Group derecognises a financial assets when the contractual rights to the cash flows from the financial asset expire, or the Group has either transferred the contractual right to receive the cash flows from that asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria, or if it transfers substantially all the risks and rewards of ownership.

The Group enters into transactions in which it transfers previously recognised financial assets but retains substantially all the associated risks and rewards of those assets. In transactions in which substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Group derecognises the transferred asset if control over that asset (i.e. the practical ability to sell the transferred asset) is relinquished. The rights and obligations retained in the transfer are recognised separately as assets and liabilities, as appropriate. If control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, which is determined by the extent to which it remains exposed to changes in the value of the financial asset transferred.

The derecognition criteria are also applied to the transfer of part of an asset, rather than the asset as a whole, or to a group of similar financial assets in their entirety, when applicable. If transferring a part of an asset, such part must be a specifically identified cash flow, a fully proportionate share of the asset, or a fully proportionate share of a specifically-identified cash flow.

3 Significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

(ii) Financial liabilities

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

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the cumulative amount recognised in other comprehensive income from the year when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and unrestricted due from banks and other financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of short-term commitments.

3 Significant accounting policies (continued)

Property and equipment

(i) Recognition and subsequent measurement

The initial cost of an item of property and equipment comprises its purchase price, including import duties, non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. After recognition as an asset, property and equipment whose fair value can be measured reliably are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Expenditure incurred after property and equipment has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property and equipment.

The Group revalues its property and equipment to ensure that the fair value of revalued assets does not differ materially from its carrying amount. Surpluses arising from revaluation are dealt with in the revaluation reserve in equity. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same asset. In all other cases, a decrease in carrying amount is charged to profit or loss as impairment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of each item of property and equipment. The estimated useful lives of property and equipment are as follows:

● Buildings	40-60 years
● Office equipment and motor vehicles	10 years
● Computers	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

Construction-in-progress

Construction-in-progress represents the cost of construction of new buildings and premises, which have not been fully completed or installed. No depreciation is provided for construction-in-progress during the period of construction.

3 Significant accounting policies (continued)

Intangible assets

(i) Acquired intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and any impairment losses.

(ii) Amortisation

Amortisation is charged to the consolidated statements of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful lives of intangible assets are as follows:

● Software	3 years
● Patent	10 years

Amortisation methods and amortisation periods are reviewed at each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is measured at fair value and changes in fair value are recognised in profit or loss.

Due to the commencement of owner-occupation or of development with a view to sell, the deemed cost of investment property carried at fair value transferred to owner-occupied property or inventories is the investment property's fair value at the date of change in use.

If an owner-occupied property becomes an investment property that will be carried at fair value due to the cease of owner-occupation, the Group shall revaluate it at the fair value at the date of change in use, and reclassify it to investment property.

Foreclosed real properties

Properties acquired through foreclosure are initially recognised at fair value, recorded as foreclosed properties. The allowance is subsequently estimated in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the President of BOM and Ministry of Finance. Such a model classifies the Group's foreclosed properties based on time characteristics and makes allowances at the rates of 0%, 25%, 50%, 75% and 100% for credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively

3 Significant accounting policies (continued)

Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

(i) Loans and receivables

Loans and receivables are presented net of allowances for uncollectability. Allowances are made against the carrying amount of loans and receivables that are identified as being potentially impaired, based on regular reviews of outstanding balances, to reduce these loans and receivables to their recoverable amount in accordance with BOM Provisioning Guidelines. Increases in the allowance account are recognised in profit or loss. When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly.

In accordance with the BOM Provisioning Guidelines revised on 30 June 2017, the Group is required to determine the quality of receivables based on their time factor and qualitative characteristics in classifying them and determining provisions. Such a model classifies the Group’s allowances for receivable losses at the rates of 0.5%, 1% to 5%, 5% to 25%, 15% to 50% and 50% to 100%, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. The Group does not recognise allowance for the deposit collateralised loans and overnight loans.

Qualitative characteristics taken into consideration for determining credit classification include completeness of loan file, financial indicators of the borrower, value of the collateral and previous rescheduling of the loan, etc.

In accordance with the BOM Provisioning Guidelines revised on 30 June 2017, the Group is required to determine the quality of off-balance assets and contingent liabilities based on obligor’s qualitative characteristics in classifying them and determining provisions. BOM Provisioning Guidelines had set the model of provisioning rate depending on the remaining period to maturity. Such a model classifies the Group’s allowances for off-balance assets and contingent liabilities losses at the rates of 0%, 5%, 25%, 50% and 100% in case of remaining period less than 1 year, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. While in case of remaining period more than 1 year, it classifies the Group’s allowances for off-balance assets and contingent liabilities losses at the rates of 0%, 1%, 15%, 35% and 75%, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 Significant accounting policies (continued)

Impairment (continued)

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. 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 is recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. 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 is recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(iii) Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognised in profit or loss. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(iv) Assets other than financial instruments

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the recoverable amount of the respective asset. The recoverable amount is the higher of the asset's or cash generating unit's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment is recognised as loss of current operation in the consolidated statements of comprehensive income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All reversals of impairment are recognised as profit in the consolidated statements of comprehensive income.

3 Significant accounting policies (continued)

Repurchase agreements

The Group enters into purchase (sale) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised on the consolidated statements of financial position. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. The difference between the sale and repurchase considerations is treated as interest income or expense and is accrued over the period of the agreement using the effective interest method.

Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognised as a deduction from equity, net of taxes.

(ii) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(iii) Non-controlling interests

Non-controlling interests, which represent the equity in a subsidiary not attributable, directly or indirectly, to a parent's ownership interests, consist of the amount of those non-controlling interests at the date of the original combination calculated in accordance with IFRS 3, 'Business Combinations' and the non-controlling interests share of changes in equity since the date of the combination.

Provisions

A provision is recognised in the consolidated statements of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

3 Significant accounting policies (continued)

Revenue

(i) Interest income

Interest income and expense is recognised in the consolidated statements of comprehensive income as it accrues, taking into account the effective yield of the asset or liability. Interest income and expense include the amortisation of any discount or premium or other differences between the carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis except that the Group does not amortise loan originating costs and fees on an effective interest rate basis but rather recognises them in profit or loss as incurred.

(ii) Fee and commission income

Fee and commission income is charged to customers for the financial services provided. Fee and commission income is recognised when the corresponding service is provided.

(iii) Rental income

Rental income from leased property is recognised in the consolidated statements of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(iv) Dividends

Dividend income is recognised when the right to receive dividends is established.

Operating lease payments

Payments made under operating leases are recognised in the consolidated statements of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the consolidated statements of comprehensive income as a deduction to the total rental expenses over the term of the lease.

Income tax

Income tax expense is comprised of current tax only.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantially enacted at the reporting date and any adjustment to tax payable in respect of previous years.

The Ministry of Finance issued a regulation on deferred tax differences in May 2010. However, the Taxation Office of Mongolia has not implemented the regulation yet and deferred tax issues have not been incorporated in the Tax Methodology yet due to unfamiliarity of the deferred tax accounting among companies, including commercial banks, as well as the tax authorities. Substantial implementation efforts such as issuance of calculation methodologies, training and discussions with practitioners are required for smooth adoption. BOM is planning to issue guidelines for commercial banks on the accounting for deferred tax assets and liabilities and recognises that current accounting practices for deferred taxes by commercial banks do not comply with IFRS.

3 Significant accounting policies (continued)

Income tax (continued)

The Government of Mongolia continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. These changes are sometimes characterized by poor drafting, varying interpretations and inconsistent application by the tax authorities. In particular, taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation and status at the period-end, the above facts may create tax risks for the Group which are not possible to quantify at this stage.

Employee benefits

The Group does not provide severance benefits to its employees except for providing the employer's portion in accordance with statutory social insurance payments to the State Social Insurance Scheme. Contributions made by the Group are recognised as an expense in the consolidated statements of comprehensive income as incurred.

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are effective for annual periods beginning after January 1, 2016, and the Group has not early adopted them.

(i) IFRS 9 Financial Instruments (IFRS 9)

IFRS 9, published in December 2015, replaces the existing guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. However, BOM postponed the effective date of IFRS 9 for Mongolian commercial banks to January 1, 2020.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

(ii) IFRS 15 Revenue from Contracts with Customers (IFRS 15)

IFRS 15, published in January 2016, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, Revenue, IAS 11, Construction Contracts and IFRIC 13, Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 is not expected to have a significant impact on the Group's consolidated financial statements.

3 Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

(iii) IFRS 16 Leases (IFRS 16)

IFRS 16, published in January 2016, supersedes IAS 17. IFRS 16 eliminates the classification of leases as either operating or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases under IAS 17. For those leases previously classified as operating leases, the most significant effect of the new requirements will be an increase in lease assets and financial liabilities and a change to the nature of expenses. IFRS 16 does not require a lessee to recognise assets and liabilities for short-term leases and leases of low-value assets. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

(iv) IFRS 17 Insurance Contracts (IFRS 17)

IFRS 17, published in May 2017, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

IFRS 17 is not expected to have a significant impact on the Group's consolidated financial statements.

4 Cash and due from banks

	2017 MNT'000	2016 MNT'000
Cash on hand	62,641,118	73,377,054
Deposits and placements with banks and other financial institutions	218,623,755	658,425,089
Balances with BOM(*)	792,668,509	457,020,267
	1,073,933,382	1,188,822,410

(*) At 31 December 2017 and 2016, BOM requires that a minimum 12% of average customer deposits for two weeks must be maintained with BOM. In relation to the daily requirement, the Group also should maintain no less than 50% of the required reserve amount at the end of each day. At 31 December 2017 and 2016, the required reserve amount was MNT 368,398,156 thousand and MNT 297,533,953 thousand, respectively.

5 Investment securities

	2017 MNT'000	2016 MNT'000
Available-for-sale investment securities		
Unquoted equity securities, at cost(*1)	443,430	443,430
Repossessed assets, at cost(*2)	92,257,890	92,257,890
Equity securities, at fair value(*3)	22,898,445	103,732,318
Government bonds(*4)	1,870,111	55,462,606
Bank of Mongolia Treasury bills(*5)	684,543,820	99,891,902
Residential mortgage-backed securities(*6)	105,177,000	57,919,000
	907,190,696	409,707,146
Held-to-maturity investment securities		
Government bonds	992,667,318	992,594,073
Development Bank of Mongolia bonds	126,428,693	123,133,998
	1,119,096,011	1,115,728,071
	2,026,286,707	1,525,435,217

(*1) Unquoted equity securities represent investments made in unlisted private companies and are recorded at cost as there is no quoted market price in active markets and their fair value cannot be reliably measured.

(*2) The Group acquired the shares of the Mongolian National Rare Earth Corp LLC ("MNREC") based on a separate agreement between the Group and MNREC's shareholder where MNREC shares are transferred to the Group if MNREC does not repay the loan. The Group acquired 100% equity interest in MNREC as at 26 December 2016 and classified as available-for-sale investment securities in accordance with BOM guidelines. Repossessed assets are recorded at cost in accordance with BOM guidelines.

5 Investment securities (continued)

(*3) Unrealised gain of MNT 4,184,221 thousand and MNT 38,872,036 thousand arising from changes in the fair value of equity securities were recognised directly in equity as other comprehensive income for the year ended 31 December 2017 and 2016, respectively.
(*4) Unrealised gain (loss) of MNT (3,790) thousand and MNT 2,325,918 thousand arising from changes in the fair value of such investment were recognised directly in equity as other comprehensive income for the years ended 31 December 2017 and 2016, respectively.
(*5) Bank of Mongolia treasury bills have short maturities from one week to three weeks. The carrying amount approximates fair value.
(*6) Residential mortgage-backed securities represent senior and junior notes issued by MIK SPCs, to which 8% mortgage loans transferred by Mongolian banks. The notes bear interest rate of 4.5% for senior debt, 10.5% for junior debt in 2017 and 10.5% for junior debt in 2016, respectively.
The maturities are from 20 years to 30 years.

6 Investment in associates and joint ventures

	2017 MNT'000	**2016 MNT'000**
Investment in MIK Holding JSC(*1)	44,331,909	52,912,775
Investment in MG Leasing LLC(*2)	5,480,743	3,562,516
Investment in NNC LLC(*3)	11,028,612	-
Investment in JCDecaux Mongolia LLC(*4)	-	3,015,498
	60,841,264	59,490,789

(*1) The Group sold MIK Holding JSC shares during the year ended 31 December 2017. As a result, carrying amount decreased by MNT 20,043,321 thousand. The Group's ownership interest in MIK decreased to approximately 21.85%. MNT 2,749,555 thousand decreased by receiving dividend in 2017. The Group recognised its share of gain of MIK of MNT 14,212,010 thousand in 2017 and MNT 14,335,894 thousand in 2016, respectively. In applying the equity method, the Group used the financial information of MIK as at 31 December 2017.
(*2) In 2013, the Group entered into a MNT 1,773,610 thousand investment acquiring 55% equity interest in MG Leasing LLC ("MGLL") which is a joint venture established by the Group and MGL corporation. However, as decisions about relevant activities require the unanimous consent of the parties sharing control, the Group does not deem MGLL as a subsidiary but as a joint venture. In applying the equity method, the Group used the financial information of MGLL as at 31 December 2017. The Group recognised its share of gain of MGLL of MNT 1,918,227 thousand in 2017 and MNT 2,690,677 thousand in 2016, respectively.
(*3) The Group owned 75.89% equity interest of NNC LLC as at 31 December 2017. In September 2017, NNC newly issued 1,746,900 ordinary shares where the Group lost control over NNC as the Group did not participate in the capital injection. After the capital injection, The Group's ownership interest in NNC decreased to approximately 38.64%. As a result of non-proportionate capital injection, NNC has been changed from subsidiary to associate. After the transaction the Group recognised its share of loss of NNC of MNT 271,388 thousand in 2017.
(*4) In 2017, as a result of losing control over NNC, the JCDecaux Mongolia LLC was excluded from associates.

6 Investment in associates and joint ventures (continued)

Condensed financial statements of associates as at 31 December 2017 and 2016, and for the years ended 31 December 2017 and 2016 were as follows:

	2017 MNT'000		2016 MNT'000	
Investees	Asset	Liability	Asset	Liability
MIK	2,778,947,860	2,612,635,129	2,322,484,358	2,187,354,486
MGLL	87,739,238	77,774,249	79,795,265	73,317,964
NNC	41,893,789	13,351,833	19,870,788	7,911,428

	2017 MNT'000		2016 MNT'000	
Investees	Operating revenue	Net income	Operating revenue	Net income
MIK	216,078,035	65,032,240	192,685,281	50,737,893
MGLL	7,407,715	2,860,446	6,768,049	2,268,114
NNC	6,253,272	(2,460,144)	4,114,361	(2,766,693)

7 Loans and advances

	2017 MNT'000	2016 MNT'000
Loans and advances to customers	3,002,411,299	2,953,228,405
Loans to executives, directors and staff	30,495,732	35,505,538
	3,032,907,031	2,988,733,943
Allowance for loan losses	(267,932,462)	(153,566,637)
	2,764,974,569	2,835,167,306

Movements in the allowance for loan losses for the years ended 31 December 2017 and 2016 were as follows:

	2017 MNT'000	2016 MNT'000
At 1 January	153,566,637	98,140,610
Provision for the year, net	114,365,825	91,794,836
Written off	-	(36,368,809)
At 31 December	267,932,462	153,566,637

7 Loans and advances (continued)

In addition, the Group transferred its mortgage loans to MIK SPCs with carrying amounts of MNT 170,632,476 thousand and MNT 61,043,170 thousand during 2017 and 2016, respectively. These transactions qualified for derecognition.

The Group transferred pool of mortgage loans with carrying amounts of MNT 5,370,059 thousand to Mongolian Mortgage Corporation HFC LLC during 2017. However, the loans do not qualify for derecognition criteria for financial assets since significant risks and rewards were not transferred to Mongolian Mortgage Corporation HFC LLC. Accordingly, the Group did not derecognize in the financial statements but accounted for these transactions as collateralised financing for which the balance at 31 December 2017 amounted to MNT 5,224,622 thousand. (Note 18)

The Group entered into Troubled Asset Recovery Program ("TARP") agreement with Bank of Mongolia in June 2016. TARP is intended to assist two borrowers in designated economic sectors who do not expect to be able to fully repay the principal and interest of its loans in the medium term. Under this agreement, BOM purchased debt securities issued by the Group and the Group granted certain loans. In addition, the Group should apply specific asset classification and provisioning ratio for the relevant borrowers as determined by BOM, which is higher than BOM Provisioning Guidelines disclosed.

BOM obligated the Group to amend certain mining loan repayment schedules breached as those loans were issued to finance strategically important projects by end of first quarter of 2017 considering the economic situation of the mining industry. Additionally, BOM obligated Group to more closely monitor the construction industry loans without downgrading the classification and report the result at the end of every month, specifically reviewing loan repayment, business operation and financial indicators including sales.

8 Bills purchased under resale agreements

Contract party	Sold date	Maturity	Interest rate	2017 MNT'000	2016 MNT'000
Trans Bank	28 Dec 2017	2 Jan 2018	11.0%	11,981,945	-

9 Subordinated loans

	2017 MNT'000	2016 MNT'000
UB City Bank	-	4,000,000

The loan to UB City Bank bears a fixed interest of 8% per annum and is to be repaid in full on 25 September 2017.

10 Property and equipment

Property and equipment as at 31 December 2017 and 2016 were as follows:

31 December 2017
(In MNT'000)

	Buildings(*1)	Office equipment and motor vehicles	Computers and others	Construction-in-progress(*2)	Total
At cost/revaluation					
At cost	48,018,214	13,804,225	23,829,662	142,199,641	227,851,742
At revaluation	126,150,568	841,556	-	-	126,992,124
At 1 January 2017	174,168,782	14,645,781	23,829,662	142,199,641	354,843,866
Additions	161,589	274,927	2,922,553	621,050	3,980,119
Disposals	-	(34,071)	(3,786)	-	(37,857)
Write-offs	(128,825)	(45,463)	(346,870)	-	(521,158)
Change in consolidation scope	(6,069,773)	(3,283,356)	(75,303)	-	(9,428,432)
Revaluation surplus	419,503	(841,556)	-	-	(422,053)
Revaluation loss	(79,865)	-	-	-	(79,865)
At 31 December 2017	168,471,411	10,716,262	26,326,256	142,820,691	348,334,620
Measured at:					
Cost	41,901,340	10,716,262	26,326,256	142,820,691	221,764,549
Revaluation	126,570,071	-	-	-	126,570,071
	168,471,411	10,716,262	26,326,256	142,820,691	348,334,620
Accumulated depreciation					
At 1 January 2017	1,366,583	4,852,103	15,065,697	-	21,284,383
Charge for the year	3,222,472	955,438	3,946,573	-	8,124,483
Disposals	-	(34,071)	(944)	-	(35,015)
Write-offs	-	(38,986)	(341,638)	-	(380,624)
Change in consolidation scope	(355,921)	(763,783)	(35,733)	-	(1,155,437)
Revaluation surplus	(3,444,252)	-	-	-	(3,444,252)
Revaluation gain	(197,508)	-	-	-	(197,508)
At 31 December 2017	591,374	4,970,701	18,633,955	-	24,196,030
Carrying amounts					
At 31 December 2017	167,880,037	5,745,561	7,692,301	142,820,691	324,138,590

(*1) During 2017, the Group reviewed the useful life of buildings, whereupon the estimated useful life of same buildings is increased to 60 years from 40 years. These changes are accounted for as a change in an accounting estimate in accordance with IAS 8. The effect of these changes on actual and expected depreciation expense is not expected to be significant.

(*2) Construction–in–progress account mainly consists of costs for construction of the Group's new office building and branch buildings. The Group made a contract to build its new corporate head office with Riverstone Property LLC and paid MNT 136,973,200 thousand in June 2016. Riverstone Property LLC is currently in the process of obtaining required permission for construction the actual construction work is planned to be commenced in 2018 and to be completed in 2022.

10 Property and equipment (continued)

31 December 2016
(In MNT'000)

	Buildings	Office equipment and motor vehicles	Computers and others	Construction-in-progress	Total
At cost/revaluation					
At cost	45,524,298	13,137,013	20,184,676	6,258,473	85,104,460
At revaluation	134,378,958	919,916	-	-	135,298,874
At 1 January 2016	179,903,256	14,056,929	20,184,676	6,258,473	220,403,334
Additions	3,783,471	1,169,320	4,535,493	137,183,731	146,672,015
Disposals	(736,446)	(413,526)	(121,958)	-	(1,271,930)
Write-offs	-	(88,582)	(768,549)	-	(857,131)
Reclassification(*1)	2,574,949	-	-	(1,242,563)	1,332,386
Revaluation surplus	(11,356,448)	(78,360)	-	-	(11,434,808)
At 31 December 2016	174,168,782	14,645,781	23,829,662	142,199,641	354,843,866
Measured at:					
Cost	51,146,272	13,804,225	23,829,662	142,199,641	230,979,800
Revaluation	123,022,510	841,556	-	-	123,864,066
	174,168,782	14,645,781	23,829,662	142,199,641	354,843,866
Accumulated depreciation					
At 1 January 2016	305,392	3,778,341	11,434,824	-	15,518,557
Charge for the year	4,717,407	1,260,513	4,494,624	-	10,472,544
Disposals	(528,158)	(106,207)	(96,670)	-	(731,035)
Write-offs	-	(80,544)	(767,081)	-	(847,625)
Reclassification(*1)	-	-	-	-	-
Revaluation surplus	(3,128,058)	-	-	-	(3,128,058)
At 31 December 2016	1,366,583	4,852,103	15,065,697	-	21,284,383
Carrying amounts					
At 31 December 2016	172,802,199	9,793,678	8,763,965	142,199,641	333,559,483

(*1) Portion of the Group's office building was reclassified from investment property. Building reclassified from investment property is MNT 1,332,386 thousand.

10 Property and equipment (continued)

Details of the latest valuation of buildings appraised by an independent professional valuation company are as follows:

Date of valuation	Description of property	Basis of valuation
31 December 2015	Buildings	Market value
31 December 2016	Buildings	Market value
31 December 2017	Buildings	Market value

The following table shows the valuation technique used in measuring the fair value of buildings, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Market price approach	Average selling price for proxy (unit: MNT'000 per ㎡); buildings: 300 ~ 7,540 apartments: 937 ~ 4,130	The estimated fair value would increase (decrease) if: Expected market price for proxy buildings and apartments was higher (lower).

11 Intangible assets and goodwill

	2017 MNT'000	2016 MNT'000
Cost		
At 1 January	14,386,501	8,949,905
Additions		
Software	446,628	4,634,105
Patent	-	802,491
Write-offs	(5,676)	-
Change in consolidation scope	(1,796,909)	-
At 31 December	13,030,544	14,386,501
Amortisation and impairment losses		
At 1 January	9,338,385	7,500,166
Amortisation charge for the year(*1)	1,480,796	1,838,219
Write-offs	(5,676)	-
Change in consolidation scope	(370,147)	-
At 31 December	10,443,358	9,338,385
Carrying amounts		
At 31 December	2,587,186	5,048,116

(*1) Amortisation is charged for software and patent.

12 Investment property

	2017 MNT'000	2016 MNT'000
At 1 January	88,932,950	99,789,000
Disposals	-	(588,240)
Write-offs	-	(1,151,774)
Reclassification(*)	-	(1,332,386)
Change in fair value	3,027,463	(7,792,650)
At 31 December	91,951,413	88,923,950

(*) Portion of the Group's office building was reclassified to property and equipment during 2016.

The fair value of investment property was appraised by an independent professional valuation company. The independent appraiser provides the fair value of the Group's investment property portfolio every year.

The fair value hierarchy for investment property has been categorised as level 3 based on the inputs used in the valuation techniques.

There was no transfer to or from level 3 of investment property during 2017 and 2016.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Market price approach	Average selling price for proxy (unit: MNT'000 per ㎡); Buildings: 5,653 ~ 7,540	The estimated fair value would increase (decrease) if: Expected market price for proxy buildings was higher (lower).

13 Foreclosed real properties

	2017 MNT'000	2016 MNT'000
Industrial buildings	12,129,207	10,960,459
Apartments and houses	1,358,786	1,069,616
Less: Allowances	(10,679,687)	(9,835,466)
	2,808,306	2,194,609

During 2017 and 2016, an allowance of MNT 481,869 thousand and MNT 504,653 thousand were written back upon recovery from foreclosed real properties, respectively, and foreclosed real properties were not written off against impairment losses.

14 Other assets

	2017 MNT'000	2016 MNT'000
Precious metals	32,149	31,334
Accrued interest receivables	170,379,528	141,186,879
Prepayment	3,634,799	23,378,378
Inventory supplies	871,872	1,954,431
Spot trading receivables	-	9,146,782
Derivative assets for trading	-	70,898,721
Hedging instruments(*1)(*2)(*3)	314,341,681	288,075,402
Domestic exchange settlement receivables	14,042,067	13,974,953
Other receivables, net(*4)	12,119,858	53,896,146
	515,421,954	602,543,026

(*1) Changes in deferred gains recognised at initial recognition of hedging instruments were as follows:

	2017 MNT'000	2016 MNT'000
Beginning balance	61,359,941	79,843,677
Deferral	-	-
Amortisation(*)	(18,433,233)	(18,483,736)
Ending balance	42,926,708	61,359,941

(*) Amortisation of deferred gains were recognised as other comprehensive income for the year ended 31 December 2016 and 2017, in connection with cash flow hedge, as the effective portion of changes in fair value of the derivative.

(*2) The Group applied cash flow hedges amount at USD 500,000 thousand by using derivatives (FX swaps) to hedge the foreign currency risks arising from its issuance of notes denominated in USD since 15 May 2015.

14 Other assets (continued)

(*3) Changes in other comprehensive income recognised as effective portion of cash flow hedge for the years ended 31 December 2017 and 2016 were as follows:

	2017 MNT'000	2016 MNT'000
Beginning balance	14,905,402	39,938,362
Increase	26,266,279	221,742,040
Reclassification(*)	31,200,000	(246,775,000)
Ending balance	72,371,681	14,905,402

(*) Valuation gain which were reclassified to profit or loss for the years ended 31 December 2017 and 2016. The recognised amount of the ineffective portion of the gain or loss on the hedging instruments is nil. The Group expects that the period, when derivative contracts designated as a cash flow hedge are exposed to cash flow volatility risk as at 31 December 2017, will be up until 29 April 2020.

(*4) Other receivables are presented net of impairment losses amounting to MNT 795,115 thousand and MNT 443,131 thousand as at 31 December 2017 and 2016, respectively.

15 Deposits from customers

	2017 MNT'000	2016 MNT'000
Current accounts	1,243,670,776	857,112,725
Savings deposits	256,649,910	272,206,435
Time deposits	1,507,655,252	1,181,790,112
Other deposits	62,257,698	104,419,834
	3,070,233,636	2,415,529,106

Current accounts and other deposits generally bear no interest. However, for depositors maintaining current account balances above the prescribed limit, interest is provided at rates of approximately 2.26% and 3.54% (2016: 1.97% and 3.35%) per annum for foreign and local currency accounts, respectively.

Foreign and local currency savings deposits bear interest at a rate of approximately 1.92% and 5.95% (2016: 1.95% and 6.42%), respectively.

Foreign and local currency time deposits bear interest at a rate of approximately 6.23% and 14.63% (2016: 6.69% and 14.71%), respectively.

16 Deposits and placements by banks and other financial institutions

	2017 MNT'000	2016 MNT'000
Current accounts deposits:		
Foreign currency deposits	34,606,332	46,329,176
Local currency deposits	11,209,388	985,892
Foreign currency cheques for selling	12,722	8,307
Deposits from banks	198,079,149	95,884,296
	243,907,591	143,207,671

17 Bills sold under repurchase agreements

Contract party	Sold date	Maturity	Interest rate	2017 MNT'000	2016 MNT'000
Development Bank of Mongolia	8 Feb 2016	21 Sep 2018	7.5%	64,960,388	64,960,388
Development Bank of Mongolia	8 Feb 2016	6 Oct 2021	7.5%	15,000,000	15,000,000
Development Bank of Mongolia	25 Feb 2016	23 Nov 2021	7.5%	20,000,000	20,000,000
Development Bank of Mongolia	3 Mar 2016	29 Nov 2021	7.5%	20,000,000	20,000,000
Development Bank of Mongolia	23 Mar 2016	14 Dec 2021	7.5%	10,000,000	10,000,000
				129,960,388	129,960,388

The Group entered into repurchase agreement with Bank of Mongolia ("BOM"), the agreement where the Group sold DBM investment securities under repurchase agreement at an aggregate amount of MNT 129,960,388 thousand.

18 Borrowings

	2017 MNT'000	2016 MNT'000
Kreditanstalt fuer Wiederaufbau	4,165,879	6,007,564
World Bank	594,945	1,158,663
Asian Development Bank	15,359,262	4,200,842
International Development Association	1,115,842	1,189,341
Export-Import Bank of Korea	-	1,665,936
Export-Import Bank of Republic of China	3,890,984	4,537,157
Japan International Cooperation Agency	27,131,236	26,997,352
Atlantic Forfaitierungs AG	16,807,091	13,697,560
SME Fund, Ministry of Industry	3,307,611	9,605,783
Commerzbank AG	55,695,530	103,966,539
ING Bank	-	1,866,397
Baoshang Bank	2,687,071	35,796,000
Sumitomo Mitsui Banking Corporation	70,995,831	61,483,128
Netherlands Development Finance Company	4,045,217	12,447,650
Bank of Mongolia	-	1,081,325
Development bank of Mongolia	261,291,378	293,811,162
Mortgage Financing Programme by BOM and Ministry of Finance	163,720,745	217,607,766
MG Leasing Corporation	-	12,352,880
TDB Syndicated Facility	28,173,139	57,482,926
Cargill TSF Asia Pte.Ltd	58,814,851	60,164,529
Cargill Financial Services International, Inc	127,424,325	252,189,389
Bank of Tokyo-Mitsubishi UFJ	-	46,006,219
China Trade Solutions	1,510,436	-
Exim Bank of Russia	-	944,196
Erste Group Bank	1,440,677	5,866,636
Banca Popolare di Sondrio	27,613,115	55,189,158
Banco Popular Espanol	16,572,301	28,106,741
UBI Banca	-	212,398
OPEC Fund for International Development	60,405,858	61,637,113
Japan Bank of International Cooperation	20,325,499	4,249,666
Industrial and Commercial Bank of China	-	1,727,515
Agricultural Bank of China	-	835,336
Mongolian Mortgage Corporation HFC LLC	5,224,622	504,930
Natixis Bank	-	1,003,229
Chailease International Financial Services	4,235,559	5,713,521
China Development Bank	48,205,091	-
Bank of Inner Mongolia	1,751,112	-
Promsvyazbank	12,135,650	-
Transkapitalbank	15,776,345	-
International Bank for Economic Co-operation	8,252,242	-
Other	-	870,344
	1,068,669,444	1,392,176,891

18 Borrowings (continued)

Kreditanstalt fuer Wiederaufbau ("KfW")

(a) In 1997, the Group entered into Financing Agreement with KfW through Bank of Mongolia, under which the Group can borrow equivalent up to EUR 4,345,981 from KfW via BOM, in EUR and MNT as a Programme-Executing Agency for mainly providing financing to various small and medium enterprises customers at preferential interest rates. The outstanding KfW loan amounted to EUR 408,572 (MNT 1,183,988 thousand) and EUR 1,522,389 (MNT 3,967,025 thousand) at 31 December 2017 and 2016, respectively. The loan bears interest at a fixed rate of 1.25% per annum. Principal repayment is on a semi-annual basis, and the repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) Under the Financing Agreement as described in (a) above, the outstanding MNT loan amounted to MNT 2,981,891 thousand and MNT 2,040,539 thousand at 31 December 2017 and 2016, respectively. The MNT loan bears interest at a rate equal to the BOM's Policy rate. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

World Bank

(a) In 2006, the Group entered into the TDB Subsidiary Loan Agreement with World Bank, under which the Group can borrow up to USD 4,000,000 from the World Bank via the Ministry of Finance to finance the Second Private Sector Development Project through the provision of sub-loans. The outstanding World Bank USD loan amounted to USD 36,000 (MNT 87,377 thousand) and USD 180,000 (MNT 448,115 thousand) at 31 December 2017 and 2016, respectively. The loan bears interest at six-month London Inter-Bank Offering Rate ("LIBOR") USD rate plus a margin of 1% per annum. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

(b) Under the TDB Subsidiary Loan Agreement as described in (a) above, the Group can also borrow amounts in various currencies including in MNT up to Special Drawing Rights (SDR) 6,250,000 from the World Bank via the Ministry of Finance to finance specific investment projects through the provision of sub-loans. The outstanding World Bank MNT loan amounted to MNT 156,000 thousand and MNT 300,000 thousand at 31 December 2017 and 2016, respectively. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(c) In 2006, the Group obtained a USD loan in the amount of USD 300,000 from the World Bank under the World Bank Training Assistance Programme loan via the Ministry of Finance for the purpose of financing the Group's implementation of institutional development programme, including staff training in the areas of credit analysis and risk assessment and risk-based internal auditing. The outstanding World Bank loan under this programme amounted to USD 144,849 (MNT 351,568 thousand) and USD 164,909 (MNT 410,548 thousand) at 31 December 2017 and 2016, respectively. The loan bears interest at a fixed rate of 2% per annum. The loan is repayable semi-annually until final repayment due in May 2025.

18 Borrowings (continued)

Asian Development Bank ("ADB")

(a) In 1999, the Group obtained a USD loan in the amount of USD 134,164 from ADB via BOM to upgrade the Group's accounting information systems. The outstanding loan amounted to USD 62,610 (MNT 151,962 thousand) and USD 67,082 (MNT 167,002 thousand) at 31 December 2017 and 2016, respectively. The loan matures in 2031 and bears interest at a fixed rate of 1% per annum and is repayable in 30 annual installments which commenced in 2002.

(b) In 2011, the Group entered into a Finance Agreement with ADB, under which the Group can borrow up to USD 11,000,000 from ADB via the Ministry of Finance to provide loans exclusively to customers who need to finance the cost of goods, works, and consulting services required to carry out Value Chain Development ("VCD") subprojects related to the development of agriculture and rural areas. The sub-loan matures in June 2018 and bears interest at a fixed rate of up to 12% per annum. The Group can also borrow in MNT. The outstanding MNT loan amounted to MNT 250,000 thousand and MNT 675,000 thousand at 31 December 2017 and 2016, respectively. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

(c) In 2016, an On-Lending Agreement for additional financing was made between the Group and Ministry of Finance ("MOF"). Under this agreement the Group can borrow up to USD 41,187,500 from ADB via the Ministry of Finance to finance agricultural and rural development projects. The sub-loan matures in January 2024 and bears interest at a fixed rate of MNT 8% and USD 7% per annum. The outstanding MNT loan amounted to MNT 14,957,300 thousand and MNT 3,358,840 thousand at 31 December 2017 and 2016, respectively.

International Development Association ("IDA")

In 1998, the Group obtained a USD loan in the amount of USD 600,000 from IDA to finance the Twinning Agreement with Norwegian Banking Resources Ltd. ("NBR"), under which NBR had transferred operational knowhow and technical skills to the Group. The outstanding IDA loan amounted to USD 459,737 (MNT 1,115,842 thousand) and USD 477,737 (MNT 1,189,341 thousand) at 31 December 2017 and 2016, respectively. The loan bears interest at a fixed rate of 1% per annum. Principal repayments commenced in August 2007 with the final repayment due in February 2037.

Export-Import Bank of Korea ("KEXIM")

In 2004, the Group entered into the Comprehensive Interbank Export Credit Agreement with KEXIM under which the Group can borrow up to USD 2,000,000 for relending purposes to finance customers who purchase goods from Korean exporters. Effective from July 2012, the maximum amount of facility increased to USD 30,000,000 but it decreased to USD 20,000,000 in July 2016. The interest of this particular loan varies with each drawdown, which is determined by KEXIM. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers. The outstanding borrowings under this line of credit agreement amounted to USD 669,177 (MNT 1,665,936 thousand) at 31 December 2016. The loan has been fully repaid and there was no outstanding loan at 31 December 2017.

18 Borrowings (continued)

Export-Import Bank of Republic of China ("TEXIM")

In 2004, the Group entered into a Relending facility with TEXIM under which the Group can borrow up to USD 5,000,000 to finance customers who purchase machinery and other manufactured goods produced in Taiwan.

In 2017, to boost utilization of the facility, TEXIM bank made following amendments to the Relending Facility program.

(a) Amount of Loan for Each Transaction:

The Loan for each eligible import transaction shall not exceed an amount equal to the gross purchase price.The previous percentage of financing up to 85% of the gross purchase price is lifted.

(b) Tenor for Each Loan:

The tenor for each Loan shall be, at the reasonable request of the Group, six (6) months to five (5) years. The previous restriction on consumer goods and non-consumer goods are lifted.

The outstanding borrowings under agreement amounted to USD 1,603,121 (MNT 3,890,984 thousand) and USD 1,822,495 (MNT 4,537,157 thousand) at 31 December 2017 and 2016, respectively. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Japan International Cooperation Agency ("JICA")

(a) In 2006, the Group entered into a Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT loans up to the amount equivalent to JPY 2,981,000,000 from JICA via the Ministry of Finance which was channeled to various borrowers for the purpose of Small and Medium-Scaled Enterprises ("SME") Development and Environmental Protection. The outstanding USD loan amounted to USD 53,500 (MNT 129,852 thousand) and USD 83,500 (MNT 207,876 thousand) at 31 December 2017 and 2016, respectively. The loan bears interest at six-month LIBOR USD rate plus a margin of 1% per annum. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) Under the Loan Financing Agreement as described in (a) above, the outstanding MNT loan amounted to MNT 1,352,876 thousand and MNT 1,951,120 thousand at 31 December 2017 and 2016, respectively. The MNT loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(c) In 2011, the Group entered into another Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT loans up to the amount equivalent to JPY 5,000,000,000 from JICA via the Ministry of Finance which was channeled to various borrowers for the second phase of developing SME Development and Environmental Protection purposes. The outstanding loans amounted to USD 873,000 (MNT 2,118,885 thousand) and MNT 23,529,623 thousand at 31 December 2017, and USD 1,076,500 (MNT 2,679,979 thousand) and MNT 22,158,377 thousand at 31 December 2016. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

18 Borrowings (continued)

Atlantic Forfaitierungs AG ("AF")

In 2009, the Group entered into a Facility Agreement with AF for the purpose of relending to customers participating in a plantation support fund. The outstanding USD loans amounted to USD 6,924,677 (MNT 16,807,091 thousand) and USD 5,502,067 (MNT 13,697,560 thousand) at 31 December 2017 and 2016, respectively. The interest rate of this particular loan varies with each drawdown which is determined by AF. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

SME Fund, Ministry of Food, Agriculture and Light Industry

(a) In 2009, the Group entered into a credit facility loan agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of SME development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 30,000,000 thousand for this facility which is available to all Mongolian commercial banks with no specific set amount allocated to individual banks. In 2010 and 2011, the Group renewed this facility agreement, and the aggregate budget increased to MNT 60,000,000 thousand and MNT 150,000,000 thousand, respectively. The loan bears interest at a fixed rate of 1.2% per annum with varying repayment dates depending on the drawdown date. In February 2016, the Group renewed this facility agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of supporting SME development and increasing working place. The outstanding borrowings amounted to MNT 1,071,608 thousand and MNT 1,619,017 thousand at 31 December 2017 and 2016, respectively. The loan bears interest at a fixed rate of 7.0% per annum. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

    In 2013, the Group signed a new facility agreement with the Ministry of Food, Agriculture and Light Industry within the above mentioned credit program. This credit facility expired in December 2017 as all the loans have been fully repaid. The outstanding borrowings under this credit facility amounted to MNT 1,548,930 thousand at 31 December 2016.

(b) In October 2011, the Group signed a second credit facility agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of Wool and Cashmere sector development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 150,000,000 thousand for this facility. The loan bears interest at a fixed rate of 0.6% per annum with varying repayment dates depending on the drawdown date. The outstanding borrowings under this credit facility amounted to MNT 3,186,100 thousand at 31 December 2016 and the project has been finished in 2017.

(c) In August 2014, the Group entered into a loan agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of SME development within the encouraging export and substituting import program (888 Project). Projects with amount is less than MNT 2,000,000 thousand were implemented by SME Fund, Ministry of Industry and financed by Development bank of Mongolia. The outstanding borrowings amounted to MNT 2,236,003 thousand and MNT 3,251,736 thousand at 31 December 2017 and 2016, respectively. The loan bears interest at a fixed rate of 3.0% per annum. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Commerzbank AG

In 2011, the Group entered into an Uncommitted Bilateral Trade Finance Facility Master Agreement with Commerzbank AG for the purpose of relending to customers to finance import and export transactions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. Under this facility agreement, the Group has outstanding loans of USD 16,241,605 (MNT 39,420,487 thousand) and EUR 5,616,209 (MNT16,275,043 thousand) at 31 December 2017, and USD 34,209,760 (MNT 85,166,223 thousand) and EUR 7,214,824 (MNT 18,800,316 thousand) at 31 December 2016. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

18 Borrowings (continued)

ING Bank

In 2011, the Group obtained a trade finance line with ING Bank under which the Group can borrow up to EUR 15,000,000 for relending purposes or confirmations of letter of credit(LC). The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers. Under this trade finance facility, the Group has outstanding loans of EUR 716,250 (MNT 1,866,397 thousand) at 31 December 2016. The loan has been fully repaid and there were no outstanding loan at 31 December 2017.

Baoshang Bank

(a) In August 2016, the Group entered into a Master Agreement on General Conditions of CNY interbank loan under which the Group can borrow CNY funding from Baoshang Bank from time to time. The outstanding of interbank loan amounted to CNY 100,000,000 (MNT 35,796,000 thousand) at 31 December 2016. The loan has been fully repaid and there was no outstanding loan at 31 December 2017.

(b) In May 2017, the Group entered into a refinancing facility agreement with Baoshang Bank, under which Baoshang Bank loans were extended to other borrowers. The outstanding borrowings under this facility amounted to USD 938,694 (MNT 2,278,333 thousand) and CNY 1,100,000 (MNT 408,738) at 31 December 2017.

Sumitomo Mitsui Banking Corporation ("SMBC")

In March 2012, the Group entered into a Refinancing Letter of Credit Facilities Agreement with SMBC under which the Group can borrow up to USD 45,000,000 for further relending to customers. The maturity dates and interest for the facilities vary in accordance with the tenor of each advance, up to 12 and 18 months. The outstanding loan amounted to USD 24,747,422 (MNT 60,065,211 thousand) and JPY 507,692,500 (MNT 10,930,620 thousand) at 31 December 2017 and USD 18,654,494 (MNT 46,440,923 thousand), EUR 174,982 (MNT 455,966 thousand) and JPY 688,354,815 (MNT 14,586,239 thousand) at 31 December 2016. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Netherlands Development Finance Company (“FMO”)

In June 2012, the Group entered into a Senior Term Facility Agreement with FMO under which the Group can borrow up to USD 10,000,000 which shall be used for relending purposes for small and medium entities. The outstanding loan amounted to USD 1,666,667 (MNT 4,045,217 thousand) and USD 5,000,000 (MNT 12,447,650 thousand) at 31 December 2017 and 2016, respectively. The facility is repayable semi-annually until final repayment due in April 2018.

18 Borrowings (continued)

Bank of Mongolia

Since 2012, the Group has continued to act as a participant bank within the relending agreement with the Bank of Mongolia Midterm Sub-programme named "To stabilise price of basic commodities and products" consists of four sub programs: i) price stability of staple food; ii) fuel retail price stability; iii) reducing the cost of imported consumption goods; and iv) promoting the construction sector and achieving stability of housing prices. In 2014, the Group signed a new credit facility agreement with the Bank of Mongolia for the purpose of Cashmere Industry support. This credit facility agreement bears interest at a fixed rate of 6.0% to 9.5% per annum with varying repayment dates depending on the drawdown date. Within the above sub programs total of over 51 borrowers have successfully taken out loans at flexible conditions that were provided by the programme. From all these programme, the outstanding loan amounted to MNT 1,081,325 thousand at 31 December 2016 and the last project has been finished in May 2017.

Development Bank of Mongolia

(a) In July 2014, the Group entered into a credit facility loan agreement with the Development Bank of Mongolia for the purpose of supporting raw leather purchase and commodity manufacturing. This credit facility bears interest at a fixed rate of 5.0% per annum with varying repayment dates depending on the drawdown date. Within this program, 9 sub borrowers were financed successfully in 2014 and 2015. The outstanding borrowings under this credit facility amounted to MNT 1,969,241 thousand and MNT 2,874,994 thousand at 31 December 2017 and 2016, respectively. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) In July 2014, the Group entered into a loan agreement with the Development Bank of Mongolia for the purpose of larger project support within the encouraging export and substituting import program (888 Project). Projects with amount of more than MNT 2,000,000 thousand were implemented and financed by Development Bank of Mongolia. The outstanding borrowings amounted to MNT 50,505,400 thousand and MNT 56,573,000 thousand at 31 December 2017 and 2016, respectively. The loan bears interest at a fixed rate of 5.0% per annum. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(c) In June 2015, the Group entered into a trilateral credit facility agreement with Development Bank of Mongolia and SME Fund, Ministry of Industry for the purpose of encouraging export and substituting import, creating working place. This program was implemented by SME Fund, Ministry of Industry and financed by Development Bank of Mongolia. This credit facility agreement expires on 5 March 2019 and bears interest at a fixed rate of 6.0% per annum with varying repayment dates depending on the drawdown date. The outstanding borrowings amounted to MNT 8,174,713 thousand and MNT 13,331,652 thousand at 31 December 2017 and 2016, respectively.

(d) In June 2015, the Group signed a new credit facility agreement with the Development Bank of Mongolia for the purpose of supporting manufacturers and processors of cashmere. Development Bank of Mongolia budgeted MNT 100,000,000 thousand for this facility. This credit facility bears interest at a fixed rate of 6.0% per annum with varying repayment dates depending on the drawdown date. The outstanding borrowings under this credit facility amounted to MNT 12,600,000 thousand at 31 December 2016 and the project has been finished in 2017.

(e) In September 2015, the Group signed a new credit facility agreement with the Development Bank of Mongolia for the purpose of encouraging export and substituting import within the target of industrialization supporting. In September 2017, the credit facility agreement was amended USD, where the Group can borrow in USD under this credit facility in addition to borrowing in MNT. Development Bank of Mongolia budgeted MNT 300,000,000 thousand for this facility. This credit facility bears interest at a fixed rate of 6.0% and USD 8.65% per annum with varying repayment dates depending on the drawdown date. The outstanding borrowings under this credit facility amounted to USD 776,528 (MNT 1,884,733 thousand) and MNT 10,386,000 thousand at 31 December 2017 and MNT 11,745,000 thousand at 31 December 2016, respectively.

18 Borrowings (continued)

Development Bank of Mongolia (continued)

(f) In September and December 2015, the Group signed new credit facility agreements with the Development Bank of Mongolia for the purpose of financing ASEM (Asia-Europe Meeting) Villa project and hotel, building for ASEM. Development Bank of Mongolia budgeted MNT 275,000,000 thousand for above facilities. The loan bears interest at a fixed rate of 4.5% per annum with varying repayment dates depending on the drawdown date. The outstanding borrowings under these credit facilities amounted to MNT 176,197,541 thousand and MNT 182,836,816 thousand at 31 December 2017 and 2016, respectively.

(g) In April 2016, the Group signed a new credit facility agreement with the Development Bank of Mongolia for the purpose of financing "Meat" program. Development bank of Mongolia budgeted MNT 25 billion for above facility. The loan bears interest at a fixed rate of 9.5% per annum with varying repayment dates depending on the drawdown date. The outstanding borrowings under this credit facility amounted to MNT 11,046,400 thousand and MNT 11,681,400 thousand at 31 December 2017 and 2016, respectively.

(h) In April 2016, the Group signed a new credit facility agreement with the Development Bank of Mongolia for the purpose of financing "Agriculture production stabilizing" program. Development bank of Mongolia budgeted MNT 25 billion for above facility. The loan bears interest at a fixed rate of 9.0% per annum with varying repayment dates depending on the drawdown date. The outstanding borrowings under this credit facility amounted to MNT 1,127,350 thousand and MNT 2,168,300 thousand at 31 December 2017 and 2016, respectively.

Mortgage Financing Programme by BOM and Ministry of Finance

In 2013, the Group entered into credit facility loan agreement titled "Mortgage financing from Bank of Mongolia provided to banks" with Bank of Mongolia. The intended purpose is to support the middle class and support the long-term sustainable economic growth by increasing the savings of the middle class. Starting from June 2017, Ministry of Finance has also begun financing. The outstanding Bank of Mongolia loan amounted to MNT 138,273,907 thousand and Ministry of Finance loan amounted to MNT 25,446,838 thousand at 31 December 2017 and MNT 217,607,766 thousand at 31 December 2016, respectively. The loan bears interest at a fixed rate of 2.00% or 4.00% per annum with varying repayment dates depending on the drawdown date.

MG Leasing Corporation

In September 2013, the Group entered into a USD 1,000,000 Facility Agreement with MG Leasing Corporation under which the Group utilise the facility to on-lend the proceeds to Mongolian knitting companies which are purchasing machines from Shima Seiki MFG Ltd. and the loan was fully repaid in September 2015. In December 2015, the Group entered into a Term Loan Agreement for the facility of USD 5,000,000. The interest of this particular loan varies with each drawdown which is determined by MG Leasing Corporation. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers. The outstanding loan amounted to USD 4,961,932 (MNT 12,352,880 thousand) at 31 December 2016. The loan has been fully repaid and there was no outstanding loan at 31 December 2017.

18 Borrowings (continued)

TDB Syndicated Facility

In September 2013, the Group entered into A/B Syndicated Term Facility Agreement with Netherlands Development Finance Company ("FMO"). The syndicated term facility of USD 82,000,000 comprised of development tranche ('A' loan) of USD 35,000,000 arranged by FMO and joined by International Investment Bank and of commercial tranche ('B' loan) of USD 47,000,000 arranged by ING Bank N.V. and TDB Capital LLC. The 'B' loan participations were received from AKA Ausfuhrkredit, Bank of Tokyo-Mitsubishi UFJ, Ltd., VTB Moscow, Commerzbank, Atlantic Forfaitierungs, MG Leasing Corporation and Chailease Group. The proceeds of the Facility will be used to finance general funding requirements of TDB including on-lending to its customers. The principal is payable in accordance with the facility agreement and the interest is repayable semi-annually until final repayment due in September 2018. The rate of interests on each loan is the percentage rate per annum, which is the aggregate of the applicable margin and LIBOR. The outstanding loan amounted to USD 11,607,594 (MNT 28,173,139 thousand) and USD 23,089,871 (MNT 57,482,926 thousand) at 31 December 2017 and 2016, respectively.

Cargill TSF Asia Pte. Ltd

Since May 2014, the Group entered into a trade related loan agreement under which the Group financed import of goods amounted to USD 24,232,262 (MNT 58,814,851 thousand) and USD 24,167,023 (MNT 60,164,529 thousand) 31 December 2017 and 2016, respectively. The interest of this particular loan varies with each drawdown which is determined by Cargill TSF Asia Pte. Ltd. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Cargill Financial Services International, Inc

In December 2014, May 2015 and November 2015 the Group entered into a Trade related Loan Agreement under which the Group for financing of import of goods for the total amount of USD 25,000,000, USD 8,800,000 and USD 51,500,000 with tenor of 2 years, respectively. The outstanding loan amounted to USD 52,500,000 (MNT 127,424,325 thousand) and USD 101,300,000 (MNT 252,189,389 thousand) at 31 December 2017 and 2016, respectively. The interest of this particular loan varies with each drawdown which is determined by Cargill Financial Services International, Inc.

Bank of Tokyo-Mitsubishi UFJ

In March 2014, the Group obtained USD 25,000,000 trade finance facility for Letter of Credit(LC) confirmation and LC refinancing for its customers business. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers. The outstanding loan amounted to USD 17,316,743 (MNT 43,110,552 thousand) and JPY 136,652,500 (MNT 2,895,667 thousand) as at 31 December 2016. The loan has been fully repaid and there was no outstanding loan at 31 December 2017.

China Trade Solutions

The Group entered into a Short-Term Trade Finance Facilities Agreement with China Trade Solutions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The outstanding loan amounted to USD 622,313 (MNT 1,510,436 thousand) at 31 December 2017.

Exim Bank of Russia ("Rosexim Bank")

In September 2015, the Group entered into Interbank Loan Agreement with Rosexim Bank for the purpose of relending to the customer. The outstanding loan amounted to USD 379,267 (MNT 944,196 thousand) at 31 December 2016. The loan has been fully repaid and there was no outstanding loan at 31 December 2017.

18 Borrowings (continued)

Erste Group Bank

The Group entered into "Master Forfaiting Agreement" for total amount of EUR 5 million with Erste Group Bank in February 2015 which enabled us to provide import financing to our customers engaged with 13 countries of East Europe. Under this facility agreement, the Group has outstanding loans of EUR 497,150 (MNT 1,440,677 thousand) at 31 December 2017 and EUR 1,900,119 (MNT 4,951,311 thousand) and USD 367,670 (MNT 915,325 thousand) at 31 December 2016, respectively. The interest of this particular loan varies with each drawdown which is determined by Erste Group Bank. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Banca Popolare di Sondrio

Since October 2015, Banca Popolare Di Sondrio, Italy has been offering post import financing on Italy and non-Italy deals. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The Group has outstanding loans of USD 6,957,724 (MNT 16,887,301 thousand) and EUR 3,701,275 (MNT 10,725,814 thousand) at 31 December 2017 and USD 20,697,683 (MNT 51,527,502 thousand) and EUR 1,405,200 (MNT 3,661,656 thousand) at 31 December 2016. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Banco Popular Espanol

Banco Popular Espanol has been cooperating trade related deals related to Spanish beneficiaries on case by case basis since September 2015. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The Group has outstanding loans of EUR 10,188 (MNT 29,523 thousand) and USD 6,815,777 (MNT 16,542,778 thousand) at 31 December 2017 and of EUR 1,512,622 (MNT 3,941,575 thousand) and of USD 9,706,718 (MNT 24,165,166 thousand) at 31 December 2016. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

UBI Banca

Since November 2015, UBI Banca, Italy has been offering post import financing to Italy originated imports from TDBM. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The Group has outstanding loans of USD 43,993 (MNT 109,522 thousand) and EUR 39,480 (MNT 102,876 thousand) at 31 December 2016. The loan has been fully repaid and there was no outstanding loan at 31 December 2017. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

OPEC Fund for International Development ("OFID")

In August 2015, the Group entered into a Trade Finance Term Loan Agreement with The OFID under which the Group borrowed USD 25,000,000 which shall be used for supporting local corporates and SMEs for their foreign trade finance requirements. The outstanding loan amounted to USD 24,887,772 (MNT 60,405,858 thousand) and USD 24,758,534 (MNT 61,637,113 thousand) at 31 December 2017 and 2016, respectively. The interest of the facility is repayable semi-annually until final repayment due in October 2018 and the principal is repayable at the maturity of the facility.

18 Borrowings (continued)

Japan Bank of International Cooperation ("JBIC")

In 2013, the Group entered into On-lending agreement with Ministry of Finance based on the Export Credit Line Agreement made between Japan Bank of International Cooperation and Mongolian Government in 2013, for the purpose of financing the equipment, machineries, goods and services produced by Japanese exporters. The Group can obtain JPY and USD loans up to the total financing amount of JPY 8,000,000 thousand. The outstanding loan amounted to JPY 944,054,778 (MNT 20,325,499 thousand) and JPY 200,550,552 (MNT 4,249,666 thousand) at 31 December 2017 and 2016, respectively. The loan matures in July 2020 and bears base interest at a rate of 3.13%.

Industrial and Commercial Bank of China ("ICBC")

In 2010, the Group entered into a Relending facility agreement with ICBC for relending purposes to finance its customers. The amount and currency of each drawdown, applicable interest rate, disbursement date and repayment date shall be agreed with ICBC on a case by case basis. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers. The outstanding loan under the agreement amounted to CNY 4,826,000 (MNT 1,727,515 thousand) at 31 December 2016. The loan has been fully repaid and there was no outstanding loan at 31 December 2017.

Agricultural Bank of China

In 2011, the Group entered into an Import Financing Agreement which enables the Group to finance its customers for import goods. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers. The outstanding loan amounted to CNY 2,333,600 (MNT 835,336 thousand) at 31 December 2016. The loan has been fully repaid and there was no outstanding loan at 31 December 2017.

Mongolian Mortgage Corporation HFC LLC

In March and June 2016, and Aug 2017 the Group transferred pool of mortgage loans with carrying amounts of MNT 367,314 thousand, MNT 245,839 thousand, and MNT 5,370,059 thousand to MIK, respectively. The loans were transferred on a recourse basis to MIK and did not qualify for derecognition criteria for financial assets since significant risks and rewards were not transferred to Mongolian Mortgage Corporation HFC LLC. Accordingly, the Group accounted for these transactions as collateralised financing for which the balance amounted to MNT 5,224,622 thousand and MNT 504,930 thousand at 31 December 2017 and 2016, respectively.

Natixis Bank

Since November 2016, the Natixis Bank, Singapore has been offering post import financing for import transactions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers. The outstanding loan amounted to EUR 385,000 (MNT 1,003,229 thousand) at 31 December 2016. The loan has been fully repaid and there was no outstanding loan at 31 December 2017.

18 Borrowings (continued)

Chailease International Financial Services

In January 2016, the Group entered into bilateral loan agreement with Chailease International Financial Services for the amount of USD 2,500,000. The loan has a 2 year tenor and will be repaid in 4 installments of 5%, 12.5%, 12.5% and 70% of loan principal on semi-annual basis. The outstanding loan amounted to USD 1,745,090 (MNT 4,235,559 thousand) and USD 2,295,020 (MNT 5,713,521 thousand) at 31 December 2017 and 2016, respectively.

China Development Bank

In July 2016, the Group entered into USD 20,000,000 term facility agreement with China Development bank which shall be used for supporting local corporates. The loan has a 3 year tenor and the interest of the facility is repayable semi-annually until final repayment due at the maturity of the facility. The outstanding loan amounted to USD 19,860,943 (MNT 48,205,091 thousand) at 31 December 2017.

Bank of Inner Mongolia

In November 2016, the Group entered into Trade Finance Facilities Agreement with Bank of Inner Mongolia. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The outstanding loan amounted to CNY 1,786,890 (MNT 663,973 thousand) and USD 447,911 (MNT 1,087,139 thousand) at 31 December 2017.

Promsvyazbank

The Promsvyazbank approved trade finance limit in 2017, for the purpose of supporting export and import between Russian Federation and Mongolia. In September 2017, the Group obtained credit in the amount of USD 5,000,000 with a tenor of 1 year to finance the Mongolian companies, who purchase petroleum products in Russia. The outstanding loan amounted to USD 5,000,000 (MNT 12,135,650 thousand) at 31 December 2017.

Transkapitalbank

In 2017, the Group entered into a Master agreement with Transkapitalbank for the purpose of relending to customers to finance import and export transactions. The interest rate of this particular loan varies with each drawdown which is determined by Transkapitalbank. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers. The outstanding borrowing under above agreement amounted to USD 6,500,000 (MNT 15,776,345 thousand) at 31 December 2017.

International Bank for Economic Co-operation

In 2017, the Group signed a Master financing agreement with the International bank for Economic co-operation for purposes of financing by the Group of foreign economic transactions of the Group's customers. The loan bears interest at a fixed rate of 5.5% per annum, and the maturity is December 2018. The outstanding borrowing under the above agreement amounted to USD 3,400,000 (MNT 8,252,242 thousand) at 31 December 2017.

19 Debt securities issued

	2017 MNT'000	2016 MNT'000
Debt securities issued, at amortised cost	1,344,633,676	1,569,366,930

On 21 January 2014, the Group issued CNY 700,000,000 senior notes due on 21 January 2017 at a price of 99.367% under its USD 700,000,000 Euro Medium Term Note ("EMTN") Programme which was launched on 13 October 2012. These bonds bear interest at 10.0% per annum payable semi-annually. These bond was due on 21 January 2017 and was paid in full as scheduled.

On 19 May 2015, the Group issued USD 500,000,000 guaranteed notes (unconditionally and irrevocably guaranteed by the government of Mongolia) due on 19 May 2020 at a price of 100% under its USD 500,000,000 Global Medium Term Note ("GMTN") Programme which was launched on 28 April 2015. These bonds bear interest at 9.375% per annum payable semi-annually.

On 28 June 2016, the Group issued MNT 160,000,000,000 notes due on 28 June 2021 at a price of 100% under Troubled Asset Refinance Program ("TARP") by Bank of Mongolia.

During 2017 and 2016, the respective debt securities accreted by MNT 9,493,265 thousand and MNT 11,947,629 thousand, respectively, using the effective interest method.

The Group is also obligated to bear withholding tax in addition to the interest expenses paid to certain investors on its senior notes in accordance with the relative double tax treaty between Mongolia and related countries, and these additional cash outflows effectively increase actual interest rates for the notes.

20 Subordinated debt issued

	2017 MNT'000	2016 MNT'000
Subordinated debt, at amortised cost	-	24,895,300

On 27 June 2012, the Group issued USD 10,000,000 subordinated debt due on 6 June 2017 at face value, which are payable semi-annually. The subordinated debt was due on 6 June 2017 and was paid in full as scheduled.

21 Other liabilities

	2017 MNT'000	2016 MNT'000
Accrued interest payables	92,667,854	94,075,114
Delay on clearing settlement	16,051,052	23,241,786
Spot trading payables	-	9,173,670
Derivative liabilities for trading	6,750	47,289,538
Finance lease payable	2,591,014	5,723,739
Domestic exchange obligation payables	11,197,320	8,347,828
Others	19,453,657	21,521,912
	141,967,647	209,373,587

22 Share capital

	Number of ordinary shares		2017	2016
	2017	2016	MNT'000	MNT'000
At 1 January	3,305,056	3,305,056	50,000,011	50,000,011
Issued during the year	-	-	-	-
At 31 December	3,305,056	3,305,056	50,000,011	50,000,011

At 31 December 2017 and 2016 3,305,056 shares were issued and outstanding out of a total 4,000,000 authorised shares. The Group increased its share capital from MNT 16,525,280 thousand to MNT 50,000,011 thousand by capitalisation of retained earnings during the year ended 31 December 2015. As at 31 December 2017 and 2016 all issued shares were fully paid and have a par value of MNT 15,128.

23 Treasury shares

The Group did not hold any treasury shares at 31 December 2017 and 2016.

24 Capital adjustments

In 2016, NNC LLC acquired 10,000 treasury shares with carrying amounts of MNT 1,583,600 thousand from UB City Bank, representing 8.04% of the total ordinary shares as at December 2016.

During 2017, the amount of MNT 1,583,600 thousand fully decreased by excluding NNC LLC in the Group subsidiaries.

25 Accumulated other comprehensive income

	2017 MNT'000			
	Net change in fair value of available-for-sale financial assets	**Net change in valuation of cash flow hedges**	**Revaluation reserves**	**Total**
Beginning balance	30,219,254	14,905,402	126,992,124	172,116,780
Changes in fair value	4,180,431	-	4,419,681	8,600,112
Net unrealised gain on valuation of cash flow hedges	-	57,466,279	-	57,466,279
Changes due to disposal and write-offs	(20,678,016)	-	-	(20,678,016)
Change in consolidation scope	-	-	(1,397,482)	(1,397,482)
Ending balance	13,721,669	72,371,681	130,014,323	216,107,673

	2016 MNT'000			
	Net change in fair value of available-for-sale financial assets	**Net change in valuation of cash flow hedges**	**Revaluation reserves**	**Total**
Beginning balance	(23,831,129)	39,938,362	135,298,874	151,406,107
Changes in fair value	41,197,955	-	(7,317,887)	33,880,068
Net unrealised gain on valuation of cash flow hedges	-	(25,032,960)	-	(25,032,960)
Changes due to disposal and write-offs	12,852,428	-	(988,863)	11,863,565
Ending balance	30,219,254	14,905,402	126,992,124	172,116,780

26 Interest income

	2017 MNT'000	2016 MNT'000
Loans and advances	365,018,080	371,947,581
Investment securities	230,974,639	196,953,296
Deposits and placements with banks and other financial institutions	16,618,825	18,496,759
Bills purchased under resale agreements	33,343	5,494,386
Subordinated loans	237,333	325,333
	612,882,220	593,217,355

27 Interest expense

	2017 MNT'000	2016 MNT'000
Deposits	193,364,035	160,758,871
Borrowings	86,085,993	79,979,835
Bills sold under repurchase agreements	9,786,092	13,955,270
Debt securities issued	143,782,741	143,606,860
Subordinated debt issued	1,102,970	2,531,855
	434,121,831	400,832,691

28 Net fee and commission income

	2017 MNT'000	2016 MNT'000
Fee and commission income		
Wire transfer	7,309,924	5,717,728
Card service	18,175,047	13,565,508
Loan related service	17,565,787	14,620,895
Others	4,088,163	4,752,873
Total fee and commission income	47,138,921	38,657,004
Fee and commission expenses		
Card service expense	7,846,858	5,072,975
Others	2,252,107	2,965,429
Total fee and commission expenses	10,098,965	8,038,404
Net fee and commission income	37,039,956	30,618,600

29 Other operating income, net

	2017 MNT'000	2016 MNT'000
Foreign exchange gain (loss), net	15,437,750	(15,653,147)
Precious metal trading gain, net	273,581	1,598,180
Gain on disposal of securities, net	14,168,548	21,827,163
Gain on disposal of investment in associates and joint ventures	8,556,355	8,907,904
Valuation gain (loss) on investment property	3,027,463	(7,792,650)
Gain (Loss) on disposal of property and equipment, net	4,868	(9,348)
Loss on disposal of investment property	-	(1,252,400)
Dividend income	49,705	-
Others	6,455,953	4,395,303
	47,974,223	12,021,005

30 Operating expenses

	2017 MNT'000	2016 MNT'000
Personnel expense	35,705,209	32,355,970
Depreciation on property and equipment (note 10)	8,124,483	10,472,544
Amortisation of intangible assets (note 11)	1,480,796	1,838,219
Advertising and public relations	8,504,537	7,955,187
Rental expenses	4,635,169	4,882,541
Professional fees	6,762,240	10,051,702
Technical assistance and foreign bank remittance fees	1,545,020	1,148,260
Write-off of property and equipment	140,534	9,380
Write-off of investment property	-	1,151,774
Insurance	7,035,315	6,339,408
Business travel expenses	1,406,406	1,393,627
Cash handling	521,433	491,057
Stationary and supplies	1,440,236	1,046,893
Communication	1,359,876	1,201,448
Training expenses	99,916	275,808
Utilities	824,774	884,237
Repairs and maintenance	1,158,944	427,957
Security	152,168	249,835
Meals and entertainment	762,026	965,919
Transportation	374,389	306,142
IT maintenance	3,378,004	1,770,654
Others(*1)	4,518,606	7,431,475
	89,930,081	92,650,037

(*1) Others includes costs incurred for loan collections, cleaning and other miscellaneous administrative expenses.

31 Provision for impairment losses

	2017 MNT'000	2016 MNT'000
Provision for impairment losses for loans	114,365,825	91,794,836
Provision for impairment losses for other assets and foreclosed real properties	1,196,206	202,796
	115,562,031	91,997,632

32 Leases

The Group leases some of its branch offices under various lease agreements. Minimum lease commitments that the Group will pay under the non-cancelable operating lease agreements with initial terms of one year or more at 31 December 2017 and 2016 were as follows:

	2017 MNT'000	2016 MNT'000
Within a year	4,304,763	3,260,901
1 – 5 years	5,555,693	4,589,308
	9,860,456	7,850,209

33 Income tax expense

Recognised in the consolidated statements of comprehensive income:

	2017 MNT'000	2016 MNT'000
Income tax expense – current year	381,360	212,876

Reconciliation of effective tax expense:

	2017 MNT'000	2016 MNT'000
Profit before tax	74,141,306	67,673,085
Tax at statutory income tax rate (*1)	18,085,327	16,468,271
Tax effect of non-deductible expense	2,860,828	8,478,009
Tax effect of non-taxable income	(20,928,695)	(24,929,456)
Tax effect of income taxable on special tax rate (*2)	363,900	136,247
Effect of tax rates in subsidiaries	-	(36,678)
Other	-	96,483
	381,360	212,876

(*1) Pursuant to Mongolian Tax Laws, the Group is required to pay Government Income Tax at the rate of 10% of the portion of taxable profit up to MNT 3 billion and 25% of the portion of taxable profits in excess of MNT 3 billion.
(*2) According to Mongolian Tax Laws, the Group is required to pay the special tax for certain type of taxable income.

34 Dividends

There were no dividends declared for the years ended 31 December 2017 and 2016.

35 Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand and unrestricted due from banks and other financial institutions with original maturities of less than three months. Cash and cash equivalents reported in the consolidated statements of cash flows for the years ended 31 December 2017 and 2016 were as follows:

	2017 MNT'000	2016 MNT'000
Cash and due from banks (note 4)	1,073,933,382	1,188,822,410
Balances with BOM restricted in use	(368,398,156)	(297,533,953)
Cash and cash equivalents	705,535,226	891,288,457

Details of significant non-cash activities for the years ended 31 December 2017 and 2016 were as follows:

	2017 MNT'000	2016 MNT'000
Investment properties transferred to property and equipment	-	1,332,386
Valuation gain on available-for-sale financial assets	16,497,110	54,050,383
Revaluation of property and equipment	4,419,681	(7,317,887)
Valuation gain (loss) on cash flow hedges	57,466,279	(25,032,960)

36 Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, operating segments, is based on the Group's management and internal reporting structure.

Operating segments pay to and receive interest from the Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill.

Operating segments

The Group comprises the following main operating segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers. The Group classifies its customer as Corporate Banking customer, where the loan amount is greater than MNT 3,000,000 thousand, or the borrower's sales amount is greater than MNT 6,000,000 thousand.

- *Small and Medium-* sized Enterprise ("SME") Banking — Includes loans, deposits and other transactions and balances with SME customers. The Group classifies its customer as SME Banking customer, where the loan amount is between MNT 350,000 thousand and MNT 3,000,000 thousand, or the borrower's sales amount is between MNT 1,500,000 thousand to MNT 6,000,000 thousand.

- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers and card customers. The Group classifies its customer as Retail Banking customer, where the loan amount is less than MNT 350,000 thousand, and the borrower's sales amount is less than MNT 1,500,000 thousand.

- *Investment and International Banking* — Includes the Group's trading, corporate finance, borrowing from foreign financial institutions and bond issuance in the international capital market.

- *Treasury* — Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in assets such as short-term placements and corporate and government debt securities. Operation is the Group's funds management activities.

- *Others* — Includes Headquarter operations and central shared services operation that manages the Group's premises and certain corporate costs.

36 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2017	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Others	Total
Segment results							
External revenue							
Net interest income (expenses)	278,262,879	15,552,882	(84,868,718)	(194,359,740)	163,978,029	195,057	178,760,389
Net fee and commission income	12,191,151	178,243	23,546,117	218,814	420,181	485,450	37,039,956
Other operating income (loss), net	3,741,982	-	7,636,144	22,319	43,395,478	(6,821,700)	47,974,223
Intersegment revenue (expenses)	(203,285,065)	(3,056,824)	155,244,277	202,315,302	(151,177,554)	(40,136)	-
Total segment revenue (expenses)	90,910,947	12,674,301	101,557,820	8,196,695	56,616,134	(6,181,329)	263,774,568
Operating expenses	(1,095,474)	-	(37,140,649)	(2,382,991)	(2,629,961)	(46,681,006)	(89,930,081)
Share of profit of associates and joint venture	-	-	-	-	-	15,858,850	15,858,850
Reversal of (provision for) impairment losses	(115,375,819)	1,854,266	(1,714,331)	-	287,274	(613,421)	(115,562,031)
Profit (loss) before tax	(25,560,346)	14,528,567	62,702,840	5,813,704	54,273,447	(37,616,906)	74,141,306
Income tax expense							(381,360)
Net profit for the year							73,759,946
Non-controlling interests							-
Segment assets	2,306,831,075	101,353,005	544,270,813	-	3,341,934,943	580,535,480	6,874,925,316
Segment liabilities	44,115,297	48,063	2,947,572,185	1,851,389,691	1,153,469,237	2,798,212	5,999,392,685
Depreciation and amortisation	(6,989)	-	(3,556,518)	(6,869)	(10,693)	(6,024,210)	(9,605,279)
Capital expenditures	29,913	-	1,930,982	13,655	5,108	2,447,089	4,426,747

36 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2016	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Others	Total
Segment results							
External revenue							
Net interest income (expenses)	288,769,011	16,003,139	(48,489,425)	(197,813,173)	134,015,463	(100,351)	192,384,664
Net fee and commission income	8,809,563	156,656	20,080,641	246,751	752,647	572,342	30,618,600
Other operating income (loss), net	-	28	6,568,014	2,541,530	9,259,921	(6,348,488)	12,021,005
Intersegment revenue (expenses)	(190,407,980)	(3,709,253)	111,133,003	205,424,542	(122,402,115)	(38,197)	-
Total segment revenue (expenses)	107,170,594	12,450,570	89,292,233	10,399,650	21,625,916	(5,914,694)	235,024,269
Operating expenses	(1,030,426)	(59)	(32,792,390)	(5,832,779)	(2,895,301)	(50,099,082)	(92,650,037)
Share of profit of associates and joint venture						17,296,485	17,296,485
Reversal of (provision for) impairment losses	(82,736,618)	(3,428,822)	(5,553,953)	-	(287,274)	9,035	(91,997,632)
Profit (loss) before tax	23,403,550	9,021,689	50,945,890	4,566,871	18,443,341	(38,708,256)	67,673,085
Income tax expense							(212,876)
Net profit for the year							67,460,209
Non-controlling interests							505,332
Segment assets	2,319,752,370	92,531,517	566,119,424	-	3,069,522,050	597,259,545	6,645,184,906
Segment liabilities	86,132,136	58,995	2,223,315,735	2,346,004,571	1,213,756,686	16,766,058	5,886,034,181
Depreciation and amortisation	(4,482)	-	(3,130,419)	(5,576)	(9,669)	(9,160,617)	(12,310,763)
Capital expenditures	220	-	4,774,835	127	5,017	147,328,412	152,108,611

37 Significant transactions and balances with related parties

The following entities are considered as related parties of the Group:

• *UB City Bank and its subsidiary*	The Group's chairman is a member of the board of directors of UB City Bank.
• *MIK Holding JSC and its subsidiaries("MIK")*	The Group holds approximately 21.85% equity interest in MIK as at 31 December 2017. (note 6)
• *Mongolian General Leasing LLC and its subsidiary ("MGLL")*	The Group holds 55% equity interest in Mongolian General Leasing LLC as at 31 December 2017. (note 6)
• *National News Corporation and its subsidiaries("NNC")*	The Group holds 38.64% equity interest in National News Corporation as at 31 December 2017. (note 6)
• *JCDecaux LLC*	NNC holds 49% equity interest in JCDecaux LLC as at 31 December 2017.
• *Mongolian National Rare Earth Corp LLC ("MNREC")*	The Group owns 100% equity interest in MNREC as at 31 December 2017.
• *Valiant Art LLC*	The Group's executive officer's immediate relative owns Valiant Art LLC as at 31 December 2017.

The Group's executive officers and their immediate relatives are also considered as the Group's related parties.

Significant transactions and balances with related parties as at and for the years ended 31 December 2017 and 2016 were as follows:

	2017 MNT'000	2016 MNT'000
UB City Bank and its subsidiary (*1):		
For the year ended 31 December		
Interest income	5,139,394	8,245,657
Interest expense	(758,866)	(1,275,662)
Net fee and commission income	(188)	(16)
As at 31 December		
Deposits and placements with banks and other financial institutions	70,660,743	124,349,012
Deposits and placements by banks and other financial institutions	26,452,916	14,264,457
Loans and advances	21,028	12,696,580
Subordinated loans (note 9)	-	4,000,000
Accrued interest income	35,607	102,182
Accrued interest expense	20,348	18,784

37 Significant transactions and balances with related parties (continued)

	2017 MNT'000	2016 MNT'000
MIK (*1):		
For the year ended 31 December		
Interest income	10,676,275	6,301,629
Interest expense	(6,124,278)	(4,566,995)
Fee and commission income	2,447,216	1,968,540
As at 31 December		
Investment securities (note 5)	105,177,000	57,919,000
Deposits and placements by banks and other financial institutions	72,113,000	31,610,000
Accrued interest income	1,356,440	794,143
Accrued interest expense	2,754,264	760,716
Borrowings	5,224,622	504,930
Receivable	1,028,399	729,578
MGLL:		
For the year ended 31 December		
Net fee and commission income	300,000	310,000
Interest income	63,707	147,705
Interest expense	(281,871)	(92,461)
Operating expense	-	(153)
As at 31 December		
Deposit placements by banks and other financial institutions	10,271,553	5,505,292
Loans and advances	615,773	237,754
Accrued interest income	4,466	1,234
Receivables	82,500	1,634,160
Other liabilities	-	654
Accrued interest expense	11,293	-
Lease payables	2,591,014	5,742,678
NNC:		
For the year ended 31 December		
Interest expense	(1,985)	-
As at 31 December		
Deposits placement by a bank	84,641	-
Receivable	432,000	-

37 Significant transactions and balances with related parties (continued)

	2017 MNT'000	2016 MNT'000
JCDecaux LLC:		
For the year ended 31 December		
Operating expenses	(163,768)	(10,071)
MNREC:		
As at 31 December		
Receivable	249,774	-
Valiant Art LLC:		
For the year ended 31 December		
Interest income	310,442	255,283
As at 31 December		
Loans and advances	1,966,763	1,968,240
Accrued interest income	2,150	-
Executive officers:		
For the year ended 31 December		
Interest income	626,577	644,200
As at 31 December		
Loans and advances	7,039,486	7,526,693
Accrued interest income	28,063	38,256

(*1) Other transactions

	2017 MNT'000	2016 MNT'000
UB City Bank and its subsidiary:		
Disposal of investment security	12,961,642	-
MIK:		
Disposal of investment security	11,428,685	-

The loans to executive officers are included in loans and advances of the Group. Interest rates charged on mortgage loans and other loans extended to executive officers are less than the rates to be charged in an arm's length transaction. The mortgages granted are secured by the properties of the respective borrowers.

Total remuneration and employees benefit paid to the executive officers and directors for the years ended 31 December 2017 and 2016 amounted to MNT 7,844,245 thousand and MNT 6,612,414 thousand, respectively.

38 Categories of financial instruments

The carrying amounts of the categories of financial assets and financial liabilities as at 31 December 2017 and 2016 were summarised as follows:

(In MNT'000)

As at 31 December 2017	Trading	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Derivative held for hedging	Total
Financial assets							
Cash and due from banks	-	-	1,073,933,382	-	-	-	1,073,933,382
Investment securities	-	1,119,096,011	-	907,190,696	-	-	2,026,286,707
Loans and advances	-	-	2,764,974,569	-	-	-	2,764,974,569
Bills purchased under resale agreements	-	-	11,981,945	-	-	-	11,981,945
Derivative assets	-	-	-	-	-	314,341,681	314,341,681
Other assets(*1)	-	-	196,541,453	-	-	-	196,541,453
	-	1,119,096,011	4,047,431,349	907,190,696	-	314,341,681	6,388,059,737
Financial liabilities							
Deposits from customers	-	-	-	-	3,070,233,636	-	3,070,233,636
Deposits and placements by banks and other financial institutions	-	-	-	-	243,907,591	-	243,907,591
Bills sold under repurchase agreements	-	-	-	-	129,960,388	-	129,960,388
Borrowings	-	-	-	-	1,068,669,444	-	1,068,669,444
Debt securities issued	-	-	-	-	1,344,633,676	-	1,344,633,676
Derivative liabilities	6,750	-	-	-	-	-	6,750
Other liabilities(*2)	-	-	-	-	141,953,944	-	141,953,944
	6,750	-	-	-	5,999,358,679	-	5,999,365,429

(*1) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.
(*2) Unearned income, derivative liabilities and spot payables were excluded.

38 Categories of financial instruments (continued)

(In MNT'000)

As at 31 December 2016	Trading	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Derivative held for hedging	Total
Financial assets							
Cash and due from banks	-	-	1,188,822,410	-	-	-	1,188,822,410
Investment securities	-	1,115,728,071	-	409,707,146	-	-	1,525,435,217
Loans and advances	-	-	2,835,167,306	-	-	-	2,835,167,306
Subordinated loans	-	-	4,000,000	-	-	-	4,000,000
Derivative assets	70,898,721	-	-	-	-	288,075,402	358,974,123
Spot trading receivables	-	-	9,146,782	-	-	-	9,146,782
Other assets(*1)	-	-	209,057,978	-	-	-	209,057,978
	70,898,721	1,115,728,071	4,246,194,476	409,707,146	-	288,075,402	6,130,603,816
Financial liabilities							
Deposits from customers	-	-	-	-	2,415,529,106	-	2,415,529,106
Deposits and placements by banks and other financial institutions	-	-	-	-	143,207,671	-	143,207,671
Bills sold under repurchase agreements	-	-	-	-	129,960,388	-	129,960,388
Borrowings	-	-	-	-	1,392,176,891	-	1,392,176,891
Debt securities issued	-	-	-	-	1,569,366,930	-	1,569,366,930
Subordinated debt issued	-	-	-	-	24,895,300	-	24,895,300
Derivative liabilities	47,289,538	-	-	-	-	-	47,289,538
Spot trading payables	-	-	-	-	9,173,670	-	9,173,670
Other liabilities(*2)	-	-	-	-	152,906,967	-	152,906,967
	47,289,538	-	-	-	5,837,216,923	-	5,884,506,461

(*1) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.
(*2) Unearned income, derivative liabilities and spot payables were excluded.

38 Categories of financial instruments (continued)

Net gains (losses) by financial instruments categories for the years ended 31 December 2017 and 2016 were as follows:

(In MNT'000)

For the year ended 31 December 2017

	Interest income	Interest expenses	Fee and commission income	Other operating income	Provision for impairment loss	Net gains (losses)	Other compre-hensive income
Held-to-maturity investments	183,851,050	-	-	-	-	183,851,050	-
Loans and receivables	381,907,581	-	17,587,535	-	(114,717,809)	284,777,307	-
Available-for-sale financial assets	47,123,589	-	-	14,168,548	-	61,292,137	(16,497,110)
Derivatives and spot trading	-	-	-	15,437,750	-	15,437,750	57,466,279
Financial liabilities measured at amortised cost	-	(434,121,831)	-	-	-	(434,121,831)	-
	612,882,220	(434,121,831)	17,587,535	29,606,298	(114,717,809)	111,236,413	40,969,169

For the year ended 31 December 2016

	Interest income	Interest expenses	Fee and commission income	Other operating income	Provision for impairment loss	Net gains (losses)	Other compre-hensive income
Held-to-maturity investments	163,215,917	-	-	-	-	163,215,917	-
Loans and receivables	396,264,059	-	14,620,895	-	(92,201,226)	318,683,728	-
Available-for-sale financial assets	33,737,379	-	-	21,827,163	-	55,564,542	54,050,383
Derivatives and spot trading	-	-	-	(15,653,147)	-	(15,653,147)	(25,032,960)
Financial liabilities measured at amortised cost	-	(400,832,691)	-	-	-	(400,832,691)	-
	593,217,355	(400,832,691)	14,620,895	6,174,016	(92,201,226)	120,978,349	29,017,423

39 Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks arising from financial instruments:

- Credit risks
- Liquidity risks
- Market risks

This note provides information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability Committee ("ALCO") and Credit Committee, which are responsible for developing and monitoring the Group's risk management policies in their specified areas.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group's Representative Governing Board ("RGB") is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The RGB is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the RGB.

39 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances and investment securities.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. Each branch is required to implement the Group's credit policies and procedures, with credit approval authorities delegated from the Group's Credit Committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of branches and credit processes are undertaken by Internal Audit.

An analysis of the net amounts of loans and investment securities with respective allowances at the reporting date was shown below. Classification of related loans to Troubled Asset Recovery Program("TARP") and BOM waiver applied specific asset classification and provisioning ratio.(note 7)

(In MNT'000)	**Loans and advances**		**Investment securities**	
	2017	**2016**	**2017**	**2016**
Carrying amount	2,764,974,569	2,835,167,306	1,910,686,942	1,329,001,579
Performing	2,477,772,798	2,495,898,306	1,910,686,942	1,329,001,579
In arrears(*)	330,117,241	269,964,291	-	-
Non-performing loans:				
a) Substandard	46,097,859	101,288,684	-	-
b) Doubtful	55,778,226	105,022,665	-	-
c) Loss	123,140,907	16,559,997	-	-
Gross amount	3,032,907,031	2,988,733,943	1,910,686,942	1,329,001,579
Allowance	(267,932,462)	(153,566,637)	-	-
Net carrying amount	2,764,974,569	2,835,167,306	1,910,686,942	1,329,001,579
Letters of credit and guarantees	471,676,191	639,918,016	-	-
Loan and credit card commitments	166,400,776	172,678,391	-	-
Unfunded Syndicated risk participation	70,325,790	111,791,240	-	-
	708,402,757	924,387,647	-	-

(*) Loans included in this classification are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate based on the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

39 Financial risk management (continued)

(b) Credit risk (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Set out below is an analysis of the gross and net (after allowances for loan losses) amounts of delinquent or individually impaired assets by classifications.

	2017 MNT'000			2016 MNT'000		
	Gross	Net	Fair value of collateral(*1)	Gross	Net	Fair value of collateral(*1)
In arrears	330,117,241	252,004,180	242,316,653	269,964,291	223,146,289	197,553,676
Substandard	46,097,859	32,182,273	32,086,793	101,288,684	75,966,513	75,803,959
Doubtful	55,778,226	16,246,030	16,152,788	105,022,665	52,511,332	49,853,563
Loss(*2)	123,140,907	(1,040,231)	-	16,559,997	-	-
	555,134,233	299,392,252	290,556,234	492,835,637	351,624,134	323,211,198

(*1) The fair value of collateral represents the mitigation of credit risk due to collateral by each item. The fair value of collateral does not include mitigation of credit risk by other types of credit enhancement such as floating charge, guarantee from the third party and other tangible assets.
(*2) The provision of letter of guarantees included.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Collateral generally is not held over loans and advances to banks except when securities are held as part of reverse repurchase and securities borrowing activities. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2017 or 2016.

The ultimate collectability of the loans is subject to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Mongolian economy and the potential continuation of adverse trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserves for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Group's consolidated financial statements.

39 Financial risk management (continued)

(b) Credit risk (continued)

The Group monitors concentration of credit risk by sector. An analysis of concentration of credit risk at the reporting date is shown below:

	2017 MNT'000	2016 MNT'000
Agriculture	16,092,838	15,714,040
Mining and quarrying	255,823,865	240,828,986
Manufacturing	340,965,750	274,246,131
Petrol import and trade	80,263,373	91,124,769
Trading	602,055,280	494,210,051
Construction	389,100,404	456,448,086
Electricity and thermal energy	1,387,672	67,796,130
Hotel, restaurant and tourism	189,522,217	221,693,441
Financial services(*)	303,438,332	341,952,173
Transportation	41,955,252	42,641,764
Health	16,165,173	19,419,045
Education	4,344,363	22,357,776
Mortgage	247,491,200	343,081,723
Payment card	112,245,734	82,231,423
Saving collateralised	39,676,520	22,195,922
Others	124,446,596	99,225,846
Total	2,764,974,569	2,835,167,306

(*) The Group classified the holding company that only owns shares of companies in other industries as financial services in accordance with the Group's sector codification.

39 Financial risk management (continued)

(b) Credit risk (continued)

As stipulated in the Banking Law of Mongolia, the total value of loans, loan equivalent assets and guarantees provided to one person or group of related persons shall not exceed 20% of the total equity of the Group. The maximum value of loans, loan equivalent assets and guarantees provided to a shareholder, the chairman, a member of the Representative Governing Board, an executive director or a Group officer or any related person thereof shall not exceed 5% of the capital of the Group, and the total amount shall not exceed 20% of the capital of the Group respectively. The criteria for concentration of loan as at 31 December 2017 are as follows:

Description	Suitable ratios	31 December 2017	Violation
The loan and guarantee given to one borrower	<Eq 20%	18.77%	None
The loan and guarantee given to the single related party	<Eq 5%	0.24%	None
Total loans and guarantees given to the related parties	<Eq 20%	1.48%	None

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. The Group's approach for managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Group's ALCO sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of liquid assets to total liabilities, which is in line with the liquidity ratio described in Banking Law of Mongolia.

For this purpose the Group maintains a liquidity ratio; calculated as a ratio of a the Group's liquid assets, including cash on hand, deposits and placements with banks and other financial institutions, balances with BOM and investment securities to the Group's liquid liabilities; including deposit from customers, deposits and placements from the Groups and other financial institutions, loans from foreign financial institutions, taxation and debt securities issued.

Details of the reported ratio at the reporting date were as follows:

	2017	**2016**
As at 31 December	46%	47%

39 Financial risk management (continued)

(c) Liquidity risk (continued)

The following table provides an analysis of the financial assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment:

(In MNT'000)

As at 31 December 2017	Less than three months	Three to six months	Six months to one year	One to five years	Over five years	Total
Financial assets						
Cash on hand	62,641,118	-	-	-	-	62,641,118
Deposits and placements with banks and other financial institutions	218,623,755	-	-	-	-	218,623,755
Balances with BOM	792,668,509	-	-	-	-	792,668,509
Bills purchased under resale agreements	11,981,945	-	-	-	-	11,981,945
Investment securities	684,543,820	1,863,585	64,731,736	822,689,169	452,458,397	2,026,286,707
Loans and advances	252,267,353	266,652,507	425,932,380	1,448,374,385	371,747,944	2,764,974,569
Subordinated loans	-	-	-	-	-	-
Other assets(*1)	152,896,045	70,626	2,442,016	345,377,776	10,096,671	510,883,134
	2,175,622,545	268,586,718	493,106,132	2,616,441,330	834,303,012	6,388,059,737
Financial liabilities						
Deposits from customers	891,225,663	599,280,346	665,078,478	912,015,449	2,633,700	3,070,233,636
Deposits and placements by banks and other financial Institutions	52,048,414	30,584,572	137,257,221	24,017,384	-	243,907,591
Bills sold under repurchase agreements	-	-	64,960,388	65,000,000	-	129,960,388
Borrowings	142,351,013	95,361,575	378,200,684	280,595,934	172,160,237	1,068,669,443
Debt securities issued	-	-	-	1,344,633,676	-	1,344,633,676
Subordinated debt issued	-	-	-	-	-	-
Other liabilities(*2)	75,868,662	16,902,622	28,155,663	20,691,917	341,830	141,960,694
Issued financial guarantee contracts	471,676,191	-	-	-	-	471,676,191
Unrecognised loan commitments	166,400,776	-	-	-	-	166,400,776
Unfunded Syndicated risk participation	70,325,791	-	-	-	-	70,325,791
	1,869,896,510	742,129,115	1,273,652,434	2,646,954,360	175,135,767	6,707,768,186
Net financial assets/(liabilities)	305,726,035	(473,542,397)	(780,546,302)	(30,513,030)	659,167,245	(319,708,449)

(*1) Prepayments, precious metal and inventory supplies were excluded.
(*2) Unearned income was excluded.

39 Financial risk management (continued)

(c) Liquidity risk (continued)

(In MNT'000)

As at 31 December 2016	Less than three months	Three to six months	Six months to one year	One to five years	Over five years	Total
Financial assets						
Cash on hand	73,377,054	-	-	-	-	73,377,054
Deposits and placements with banks and other financial institutions	658,425,089	-	-	-	-	658,425,089
Balances with BOM	457,020,267	-	-	-	-	457,020,267
Investment securities	149,865,167	4,983,718	-	626,802,724	743,783,608	1,525,435,217
Loans and advances	287,951,793	274,414,437	699,422,143	1,278,905,541	294,473,392	2,835,167,306
Subordinated loans	-	-	4,000,000	-	-	4,000,000
Other assets(*1)	175,320,673	50,932	-	378,965,005	22,842,273	577,178,883
	1,801,960,043	279,449,087	703,422,143	2,284,673,270	1,061,099,273	6,130,603,816
Financial liabilities						
Deposits from customers	1,668,217,430	268,733,902	412,507,220	66,070,554	-	2,415,529,106
Deposits and placements by banks and other financial Institutions	61,302,134	49,790,600	32,114,937	-	-	143,207,671
Bills sold under repurchase agreements	-	-	-	129,960,388	-	129,960,388
Borrowings	178,806,622	232,209,355	263,150,348	483,591,267	234,419,299	1,392,176,891
Debt securities issued	206,531,928	-	-	1,362,835,002	-	1,569,366,930
Subordinated debt issued	-	24,895,300	-	-	-	24,895,300
Other liabilities(*2)	111,856,687	12,953,087	24,169,339	60,369,433	21,629	209,370,175
Issued financial guarantee contracts	639,918,016	-	-	-	-	639,918,016
Unrecognised loan commitments	172,678,391	-	-	-	-	172,678,391
Unfunded Syndicated risk participation	111,791,240	-	-	-	-	111,791,240
	3,151,102,448	588,582,244	731,941,844	2,102,826,644	234,440,928	6,808,894,108
Net financial assets/(liabilities)	(1,349,142,405)	(309,133,157)	(28,519,701)	181,846,626	826,658,345	(678,290,292)

(*1) Prepayments, precious metal and inventory supplies were excluded.
(*2) Unearned income was excluded.

39 Financial risk management (continued)

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Asset Quality Review (AQR)

On 24 May 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility for Mongolia to support the country's economic reform program. The total financing package amounts to approximately $5.5 billion, including support from the Asian Development Bank, the World Bank, Japan, Korea and China. One of the pillars of the program is a comprehensive effort to rehabilitate the banking system and strengthen the Bank of Mongolia. As part of the program, the Bank of Mongolia commissioned Diagnostic Studies on Commercial Banks in Mongolia including an Asset Quality Review (AQR). The AQR was performed predominantly based on version 2 of the European Central Bank's AQR Manual, as localised by the Bank of Mongolia in several areas. Preliminary summary results were informed to each commercial bank in January 2018.

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

As at the date of approval of these financial statements, final results of the AQR and stress test are pending, and the full implications of the assessment on the Mongolian financial sector and for the Bank specifically are as yet unclear. This creates a significant uncertainty in market, regulatory, credit and other risks including related implications for capital adequacy, and in the Bank's future exposure to such risks, the implications of which will only be realised with time. The financial impact resulting from this AQR and stress test on the Group's financial statements cannot be reasonably estimated at this time, therefore no adjustments for this matter have been recorded to the Group's financial statements.

Management of market risks

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net of interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

Overall authority for market risk is vested with the ALCO.

39 Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risks

The principal risk to which the Group's financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. A summary of the Group's interest rate gap position on its financial assets and liabilities are as follows:

39 Financial risk management (continued)

(d) Market risks (continued)

As at 31 December 2017

(In MNT'000)

	Average interest rate	Total	Non-interest sensitive	Less than three months	Three to six months	Six months to one year	One to five years	Over five years
Financial assets								
Cash on hand	-	62,641,118	62,641,118	-	-	-	-	-
Deposits and placements with banks and other financial institutions	0.40%	218,623,755	210,623,755	8,000,000	-	-	-	-
Balances with BOM	-	792,668,509	792,668,509	-	-	-	-	-
Investment securities	12.30%	2,026,286,707	115,599,765	684,543,820	1,863,585	64,731,736	822,689,169	336,858,632
Loans and advances	14.16%	2,764,974,569	-	252,267,353	266,652,507	425,932,380	1,448,374,385	371,747,944
Bills purchased under resale agreements	11.00%	11,981,945	-	11,981,945	-	-	-	-
Subordinated loan	-	-	-	-	-	-	-	-
Other assets(*1)	-	510,883,134	510,883,134	-	-	-	-	-
		6,388,059,737	1,692,416,281	956,793,118	268,516,092	490,664,116	2,271,063,554	708,606,576
Financial liabilities								
Deposits from customers	7.16%	3,070,233,636	-	891,225,663	599,280,346	665,078,478	912,015,449	2,633,700
Deposits and placements with banks and other financial institutions	3.89%	243,907,591	44,978,823	7,069,591	30,584,572	137,257,221	24,017,384	-
Bills sold under repurchase agreements	7.50%	129,960,388	-	-	-	64,960,388	65,000,000	-
Borrowing	5.89%	1,068,669,443	-	142,351,013	95,361,575	378,200,684	280,595,934	172,160,237
Debt securities issued	9.40%	1,344,633,676	-	-	-	-	1,344,633,676	-
Subordinated debt issued	-	-	-	-	-	-	-	-
Other liabilities(*2)	-	141,960,694	141,960,694	-	-	-	-	-
		5,999,365,428	186,939,517	1,040,646,267	725,226,493	1,245,496,771	2,626,262,443	174,793,937
Net financial assets/(liabilities)		388,694,309	1,505,476,764	(83,853,149)	(456,710,401)	(754,832,655)	(355,198,889)	533,812,639

(*1) Prepayments, precious metal and inventory supplies were excluded.
(*2) Unearned income was excluded.

39 Financial risk management (continued)

(d) Market risks (continued)

As at 31 December 2016

(In MNT'000)

	Average interest rate	Total	Non-interest sensitive	Less than three months	Three to six months	Six months to one year	One to five years	Over five years
Financial assets								
Cash on hand	-	73,377,054	73,377,054	-	-	-	-	-
Deposits and placements with banks and other financial institutions	2.88%	658,425,089	372,256,639	286,168,450	-	-	-	-
Balances with BOM		457,020,267	457,020,267	–	-	-	-	-
Investment securities	14.62%	1,525,435,217	104,175,747	45,689,420	4,983,718	-	626,802,724	743,783,608
Loans and advances	12.68%	2,835,167,306	-	287,951,793	274,414,437	699,422,143	1,278,905,541	294,473,392
Subordinated loan	8.00%	4,000,000	-	-	-	4,000,000	-	-
Other assets(*1)	-	577,178,883	577,178,883	-	-	-	-	-
		6,130,603,816	1,584,008,590	619,809,663	279,398,155	703,422,143	1,905,708,265	1,038,257,000
Financial liabilities								
Deposits from customers	6.37%	2,415,529,106	-	1,668,217,430	268,733,902	412,507,220	66,070,554	-
Deposits and placements with banks and other financial institutions	6.70%	143,207,671	45,344,034	15,958,100	49,790,600	32,114,937	-	-
Bills sold under repurchase agreements	7.50%	129,960,388	-	-	-	-	129,960,388	-
Borrowing	5.86%	1,392,176,891	-	178,806,621	232,209,355	263,150,348	483,591,267	234,419,300
Debt securities issued	9.54%	1,569,366,930	-	206,531,928	-	-	1,362,835,002	-
Subordinated debt issued	8.26%	24,895,300	-	-	24,895,300	-	-	-
Other liabilities(*2)	-	209,370,175	209,370,175	-	-	-	-	-
		5,884,506,461	254,714,209	2,069,514,079	575,629,157	707,772,505	2,042,457,211	234,419,300
Net financial assets/(liabilities)		246,097,355	1,329,294,381	(1,449,704,416)	(296,231,002)	(4,350,362)	(136,748,946)	803,837,700

(*1) Prepayments, precious metal and inventory supplies were excluded.
(*2) Unearned income was excluded.

39 Financial risk management (continued)

(d) Market risks (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the Group's sensitivity to a 100 basis point (bp) increase or decrease in interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) for net financial assets/(liabilities) less than one year is as follows:

	100 bp parallel increase MNT'000	100 bp parallel decrease MNT'000
Sensitivity of projected net interest income		
2017		
At 31 December	(5,475,237)	5,475,237
2016		
At 31 December	(14,547,233)	14,547,233

39 Financial risk management (continued)

(d) Market risks (continued)

Exposure to foreign exchange rate risks

The Group is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's management sets limits on the level of exposure by currencies (primarily USD) and in total. These limits also comply with the minimum requirements set by BOM.

(In MNT'000)

	2017			2016		
	MNT denominated	Foreign currencies	Total	MNT denominated	Foreign currencies	Total
Financial assets						
Cash on hand	29,654,491	32,986,627	62,641,118	30,437,277	42,939,777	73,377,054
Deposits and placements with banks and other financial instruments	78,660,742	139,963,013	218,623,755	124,355,972	534,069,117	658,425,089
Balances and deposits with the BOM	211,450,889	581,217,620	792,668,509	133,806,175	323,214,092	457,020,267
Investment securities	2,024,416,596	1,870,111	2,026,286,707	1,421,604,807	103,830,410	1,525,435,217
Loan and advances	1,456,036,564	1,308,938,005	2,764,974,569	1,672,127,290	1,163,040,016	2,835,167,306
Bills purchased under resale agreements	11,981,945	-	11,981,945	-	-	-
Subordinated loans	-	-	-	4,000,000	-	4,000,000
Other assets (*1)	439,258,809	71,624,325	510,883,134	441,921,676	135,257,207	577,178,883
	4,251,460,036	2,136,599,701	6,388,059,737	3,828,253,197	2,302,350,619	6,130,603,816
Financial liabilities						
Deposits from customers	1,581,674,987	1,488,558,649	3,070,233,636	1,007,248,638	1,408,280,468	2,415,529,106
Deposits and placement by bank and other financial institutions	11,234,388	232,673,203	243,907,591	1,010,892	142,196,779	143,207,671
Bills sold under repurchase agreements	129,960,388	-	129,960,388	129,960,388	-	129,960,388
Borrowings	474,887,313	593,782,131	1,068,669,444	553,094,842	839,082,049	1,392,176,891
Debt securities issued	-	-	-	160,000,000	1,409,366,930	1,569,366,930
Subordinated debt issued	160,000,000	1,184,633,676	1,344,633,676	-	24,895,300	24,895,300
Other liabilities (*2)	80,065,127	61,895,567	141,960,694	107,180,360	102,189,815	209,370,175
	2,437,822,203	3,561,543,226	5,999,365,429	1,958,495,120	3,926,011,341	5,884,506,461
Off-balance foreign currency exposure, net		1,274,120,623			1,585,454,291	
Net foreign currency exposure		(150,822,902)			(38,206,431)	

(*1) Prepayments, precious metal and inventory supplies were excluded.
(*2) Unearned income was excluded.

39 Financial risk management (continued)

(d) Market risks (continued)

Exposure to foreign exchange rate risks (continued)

A ten percent strengthening or weakening of the MNT against the USD at 31 December 2017 and 2016 would have increased (decreased) comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Ten percent Strengthening MNT'000	Ten percent Weakening MNT'000
2017		
At 31 December	15,822,902	(15,822,902)
2016		
At 31 December	3,820,643	(3,820,643)

39 Financial risk management (continued)

(e) Capital Management

BOM sets and monitors capital requirements for the Group as a whole.

The Bank of Mongolia requires the Group to maintain a minimum capital adequacy ratio of 14.0% at 31 December 2017 and 2016, complied on the basis of total capital and total assets as adjusted for their risk ("CAR"), and a minimum of 9.0% at 31 December 2017 and 2016, complied on the basis of total tier 1 capital and total assets as adjusted for their risk ("TCAR").

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated borrowings capital may not exceed 50 percent of tier 1 capital.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year.

On 1 April 2015, the Governor of the Bank of Mongolia announced Order A-58, which requires the Group to increase its share capital to MNT 50 billion by 31 December 2015 and not to pay dividends by 31 December 2017.

The suitable ratios of the Group's capital adequacy as at 31 December 2017 and 2016, respectively, were as following:

	2017 MNT'000	2016 MNT'000
Tier 1 capital	638,055,602	559,892,249
Tier 2 capital	136,612,874	173,983,557
Total Tier 1 and Tier 2 capital	774,668,476	733,875,806
Risk weighted assets	4,549,854,176	5,019,707,306
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	17.03%	14.62%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("TCAR")	14.02%	11.15%

40 Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

The Group follows the following hierarchy for determining and disclosing the fair value of financial instruments based on the level of significant inputs used in measurement.

Level 1: Fair value is based on quoted prices in active markets for identical assets or liabilities

Level 2: The inputs used for fair value measurement are market observable inputs, either directly or indirectly.

Level 3: Valuation techniques are used to estimate fair value of which significant inputs are not based on observable market data.

Fair value of financial assets and liabilities not carried at fair value

The Group determines fair values for those financial instruments which are not carried at fair value in the consolidated financial statements as follows:

(i) Financial assets and liabilities for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having short term maturity of less than one year, it is assumed that the carrying amounts approximate to their respective fair value. This assumption is also applicable to demand deposits, time deposits and variable rate financial instruments, which is principally due to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

(ii) Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost basis are estimated by comparing market interest rates when they were first recognised with the current market rates offered for the similar financial instruments available in Mongolia. For quoted debt issued, the fair values are measured based on quoted market prices and in case where observable market inputs are not available, a discounted cash flow model is employed.

40 Fair values of financial assets and liabilities (continued)

(In MNT'000)	Note	2017 Carrying amount	2017 Fair value	2016 Carrying amount	2016 Fair value
Financial assets					
Cash on hand	5	62,641,118	62,641,118	73,377,054	73,377,054
Deposits and placements with banks and other financial institutions	5	1,011,292,264	1,011,292,264	1,115,445,356	1,115,445,356
Investment securities	6	2,026,286,707	2,106,523,564	1,525,435,217	1,401,861,397
Loans and advances to customers	8	2,764,974,569	2,806,470,750	2,835,167,306	2,872,860,132
Bills purchased under repurchase agreements	9	11,981,945	11,981,945	-	-
Subordinated loans	10	-	-	4,000,000	4,000,000
Other assets(*1)	15	510,883,134	510,883,134	577,178,883	577,178,883
		6,388,059,737	6,509,792,775	6,130,603,816	6,044,722,822
Financial liabilities					
Deposits from customers	16	3,070,233,636	3,048,074,877	2,415,529,106	2,413,087,367
Deposits and placements by banks and other financial institutions	17	243,907,591	243,907,591	143,207,671	143,207,671
Bills sold under repurchase agreements	18	129,960,388	129,960,388	129,960,388	129,960,388
Borrowings	19	1,068,669,444	1,068,669,444	1,392,176,891	1,392,176,891
Debt securities issued	20	1,344,633,676	1,449,178,848	1,569,366,930	1,372,738,626
Subordinated debt issued	21	-	-	24,895,300	24,461,061
Other liabilities(*2)	22	141,960,694	141,960,694	209,370,175	209,370,175
		5,999,365,429	6,081,751,842	5,884,506,461	5,685,002,179

(*1) Prepayments, precious metal and inventory supplies were excluded.
(*2) Unearned income was excluded.

40 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are measured at fair value in the consolidated statement of financial position as at 31 December 2017 and 2016 were as follows:

(In MNT'000)

	2017(*2)			
	Level 1	**Level 2**	**Level 3**(*3)	**Total**
Investment securities (AFS)(*1)	22,898,445	791,590,931	-	814,489,376
Derivative assets	-	-	314,341,681	314,341,681
	22,898,445	791,590,931	314,341,681	1,128,831,057
Derivative liabilities	-	6,750	-	6,750

(*1) As at 31 December 2017, repossessed assets and unquoted equity securities at cost amounting to MNT 92,257,890 thousand and MNT 443,430 thousand, respectively, were excluded.

(*2) The fair value of level 2 financial instruments were measured by valuation technique using market observable interest rate and foreign currency exchange rate, etc.
There was no transfer between level 1 and level 2 for the year ended 31 December 2017.

(*3) The fair value of level 3 financial instrument was measured by discounted cash flow method using market unobservable forward exchange rate. USD to MNT forward exchange rate is 2,931.70 as at 31 December 2017.

A ten percent strengthening or weakening of input unobservable in markets as at 31 December 2017 would have increased or decreased other comprehensive income by MNT 106,031,576 thousand.

Total gains or losses for the period recognised in the profit or loss and other comprehensive income related to financial instruments in level 3 were MNT 241,970,000 thousand and MNT 72,371,681 thousand for the year ended 31 December 2017.

There was no transfer between level 3 and other levels for the year ended 31 December 2017.

(In MNT'000)

	2016(*2)			
	Level 1	**Level 2**	**Level 3**(*3)	**Total**
Investment securities (AFS)(*1)	103,732,318	213,273,508	-	317,005,826
Derivative assets	-	70,898,721	288,075,402	358,974,123
	103,732,318	284,172,229	288,075,402	675,979,949
Derivative liabilities	-	47,289,538	-	47,289,538

(*1) As at 31 December 2016, repossessed assets and unquoted equity securities at cost amounting to MNT 92,257,890 thousand and MNT 443,430 thousand, respectively, were excluded.

(*2) The fair value of level 2 financial instruments were measured by valuation technique using market observable interest rate and foreign currency exchange rate, etc.
There was no transfer between level 1 and level 2 for the year ended 31 December 2016.

40 Fair values of financial assets and liabilities (continued)

(*3) The fair value of level 3 financial instrument was measured by discounted cash flow method using market unobservable forward exchange rate. USD to MNT forward exchange rate is 3,373.18 as at 31 December 2016.

A ten percent strengthening or weakening of input unobservable in markets as at 31 December 2016 would have increased or decreased other comprehensive income by MNT 82,467,530 thousand.

Total gains or losses for the period recognised in the profit or loss and other comprehensive income related to financial instruments in level 3 were MNT 273,170,000 thousand and MNT 14,905,402 thousand for the year ended 31 December 2016.

There was no transfer between level 3 and other levels for the year ended 31 December 2016.

The fair value of level 2 financial instruments were measured by valuation technique using market observable interest rate and foreign currency exchange rate, etc.

40 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as at 31 December 2017 and 2016 were as follows:

(In MNT'000)

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash on hand	62,641,118	-	-	62,641,118
Deposits and placements with banks and other financial institutions	-	-	1,011,292,264	1,011,292,264
Investment securities (HTM)	-	1,199,332,868	-	1,199,332,868
Loans and advances to customers	-	-	2,806,470,750	2,806,470,750
Bills purchased under repurchase agreements			11,981,945	11,981,945
Other assets(*1)	-	-	196,541,453	196,541,453
	62,641,118	1,199,332,868	4,026,286,412	5,288,260,398
Deposits from customers	-	-	3,048,074,877	3,048,074,877
Deposits and placements by banks and other financial institutions	-	-	243,907,591	243,907,591
Bills sold under repurchase agreements	-	-	129,960,388	129,960,388
Borrowings	-	-	1,068,669,444	1,068,669,444
Debt securities issued	-	1,449,178,848	-	1,449,178,848
Other liabilities(*2)	-	-	141,953,944	141,953,944
	-	1,449,178,848	4,632,566,244	6,081,745,092

(*1) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.
(*2) Unearned income, derivative liabilities and spot payables were excluded.

40 Fair values of financial assets and liabilities (continued)

(In MNT'000)

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash on hand	73,377,054	-	-	73,377,054
Deposits and placements with banks and other financial institutions	-	-	1,115,445,356	1,115,445,356
Investment securities (HTM)	-	992,154,251	-	992,154,251
Loans and advances	-	-	2,872,860,132	2,872,860,132
Subordinated loans	-	-	4,000,000	4,000,000
Spot receivables	9,146,782	-	-	9,146,782
Other assets(*1)	-	-	209,057,978	209,057,978
	82,523,836	992,154,251	4,201,363,466	5,276,041,553
Deposits from customers	-	-	2,413,087,367	2,413,087,367
Deposits and placements by banks and other financial institutions	-	-	143,207,671	143,207,671
Bills sold under repurchase agreements	-	-	129,960,388	129,960,388
Borrowings	-	-	1,392,176,891	1,392,176,891
Debt securities issued	-	1,372,738,626	-	1,372,738,626
Subordinated debt issued	-	24,461,061	-	24,461,061
Spot payables	9,173,670	-	-	9,173,670
Other liabilities(*2)	-	-	152,906,967	152,906,967
	9,173,670	1,397,199,687	4,231,339,284	5,637,712,641

(*1) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.
(*2) Unearned income, derivative liabilities and spot payables were excluded.

41 Offsetting financial assets and liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as at 31 December 2017 and 2016 are as follows:

(In MNT'000)

	2017					
				Amount not offsetting in the statements of financial position		
	Financial assets and liabilities recognised	Offsetting financial assets and liabilities recognised	Financial assets and liabilities recognised after offset	Financial instruments	Cash collateral received	Total
Financial assets						
Bills purchased under resale agreements(*1)	11,981,945	-	11,981,945	11,981,945	-	-
	11,981,945	-	11,981,945	11,981,945	-	-
Financial liabilities						
Bills sold under repurchase agreements(*1)	129,960,388	-	129,960,388	129,960,388	-	-
	129,960,388	-	129,960,388	129,960,388	-	-

(*1) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

41 Offsetting financial assets and liabilities (continued)

(In MNT'000)

	2016					
				Amount not offsetting in the statements of financial position		
	Financial assets and liabilities recognised	Offsetting financial assets and liabilities recognised	Financial assets and liabilities recognised after offset	Financial instruments	Cash collateral received	Total
Financial assets						
Derivative assets(*1)	-	-	-	9,146,782	-	-
Receivable spot exchange(*1)	9,146,782	-	9,146,782			
	9,146,782	-	9,146,782	9,146,782	-	-
Financial liabilities						
Derivative liabilities(*1)	20,657,925	-	20,657,925	9,146,782	-	
Payable spot exchange(*1)	9,173,670	-	9,173,670			20,684,813
Bills sold under repurchase agreements(*2)	129,960,388	-	129,960,388	129,960,388	-	-
	159,791,983	-	159,791,983	139,107,170	-	20,684,813

(*1) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(*2) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

42 Commitment and contingent liabilities

Financial guarantees and letters of credit

At any time the Group has outstanding commitments to extend credit, these commitments take the form of undrawn portions of approved loans, credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers third parties. These agreements have fixed limits and generally extend for a period of less than one year. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions. The contractual amounts of commitments and contingent liabilities are set out in the following table by category.

The amounts reflected in the table for guarantees and letters of credit represent the maximum exposure to credit risk would be recognised at the reporting date if counterparties failed completely to perform as contracted.

As at 31 December	2017 MNT'000	2016 MNT'000
Letters of credit and guarantees	471,676,191	639,918,016
Loan and credit card commitments	166,400,776	172,678,391
Unfunded Syndicated risk participation	70,325,791	111,791,240

A significant portion of the contingent liabilities and commitments will expire without being advanced in whole or in part. Accordingly, the amounts do not represent expected future cash flows.

EMC Matter

On 10 February 2017, the Parliament of Mongolia issued a resolution 23 on the acquisition of 49% stake in Erdenet Mining Corporation LLC (EMC) by Mongolian Copper Corporation LLC (MCC), where the Group provided financing to MCC. Based on this resolution, the Government of Mongolia (GoM) has issued a resolution on 29 March 2017 which directed State Property Management and Coordination Department (SPMCD) to transfer MCC's 49 % stake to the state ownership and appoint all board members of EMC from state side. The SPMCD issued respective decisions and the Legal entity registration office of the General department of intellectual property and state registration (GDIPSR) has registered the EMC's revised charter which was approved by the shareholder's meeting held by sole representatives of the SPMCD without notification to MCC.

MCC has filed a claim against the SPMCD and the GDIPSR in the Civil court for recovering MCC's violated rights and interests related to (1) illegally transferred MCC's 49 % stake holding to state ownership, (2) illegally revised charter of EMC.

Trial, Appellate and Supreme Court of Civil cases of Mongolia have reviewed a claim and ruled in favor of MCC. The Supreme Court of Mongolia ruled that the Parliament resolution shall not be the ground to hold the extraordinary shareholders meeting, to restrict shareholders ownership right without compensation. Procedures to hold a shareholders meeting shall be complied with regulations and procedures provided by law. Based on the Supreme Court's decision, MCC's 49 % stake holding registered in GDIPSR would remain valid.

42 Commitment and contingent liabilities (continued)

EMC Matter (Continued)

On 4 January 2018, the GoM issued another resolution that has decided to transfer MCC's 49% stake to the state property by offsetting the payments made by MCC. MCC filed a claim against the GoM, SPMCD and GDIPSR to invalidate the resolution and its subsequent decisions. On 9 February 2018, the first instance Administration Court decided to suspend the implementation of the GoM's resolution and its subsequent decisions.

As the relevant lawsuit is in progress, this creates uncertainty as the result cannot be predicted. The potential financial impact resulting from this matter on the Group's consolidated financial statements cannot be reliably estimated at this time, therefore no adjustments for this matter have been made to the Group's consolidated financial statements.

43 Interests in unconsolidated structured entities

Nature of risk associated with interests in unconsolidated structured entities as 31 December 2017 and 2016 are as follows:

Type	Nature and purpose	Financing	Total Assets 2017 MNT'000	Total Assets 2016 MNT'000
Securitisation vehicles for loans and advances	To generate: ▪ funding for the Group's lending activities. ▪ fees for loan servicing. These vehicles are financed through the issue of notes to investors.	Issue of RMBS notes	2,559,588,842	2,150,867,102

Exposure to risk relating to interests in unconsolidated structured entities as at 31 December 2017 and 2016 are as follows:

	2017 MNT'000	2016 MNT'000
Investment securities		
Securitisation vehicles for loans and advances	105,177,000	57,919,000