TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Financial Statements

31 December 2018 and 2017

(With Independent Auditors' Report Thereon)

Table of Contents

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 financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018 and 2017 and of its 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 : 29 March 2019

KPMG SAMJONG

KPMG Samjong Accounting Corp.

Gangnam Finance Center, 27th Floor,
152 Teheran-ro
Gangnam-gu, Seoul 06236
Republic of Korea

Tel. 82-2-2112-0100
Fax. 82-2-2112-0101
www.kr.kpmg.com

Independent Auditors' Report

To the Board of Directors and Shareholders of
Trade and Development Bank of Mongolia LLC:

Opinion

We have audited the accompanying financial statements of Trade and Development Bank of Mongolia (the "Bank"), which comprise the statements of financial position as at 31 December 2018 and 2017, the statements of comprehensive income (loss), the statements of changes in equity and the statements of cash flows for the years then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018 and 2017, and of its financial performance and its 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 Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the 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

As described in note 1 to the financial statements, the Bank sold its subsidiaries in order to comply with the Banking Law of Mongolia. Thus, as at 31 December 2018, the Bank does not hold any investment in subsidiaries, associates or joint ventures.

We draw attention to Note 39 to the financial statements, which describes that in March 2019 the Government of Mongolia (the 'Government') announced that it has placed under an emergency regime for six months the state owned entity Erdenet Mining Corporation LLC ('EMC'). During the period of the emergency regime, the Government of Mongolia plans to inspect financial documents including the Bank's relationship with EMC and the funding of the acquisition of a 49% stake in EMC by Mongolian Copper Corporation ('MCC'), which was advised, and the transaction was partially funded by the Bank. The Government alleges irregularities in the funding of this acquisition, and the Bank has material exposures in its loans and prepayments for construction in progress to companies that the Government alleges funded this acquisition. As the Government's inspection of financial documents under the emergency regime for six months at EMC is currently in progress, the ultimate outcome of the matter cannot presently be determined. Accordingly no provision for any effects on the Bank that may result, has been made in the financial statements. Our opinion is not modified in respect of this matter.

KPMG SAMJONG

Key Audit Matters

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

Allowance for loan losses

For a qualitative and quantitative description of the management of credit risks, including impaired loans and securities, we refer to note 36 of the financial statements. With regard to significant accounting policies and critical accounting estimates, we refer to note 3 of the financial statements. For information on loans and allowance levels, we refer to notes 7 and 28 of the financial statements.

The Financial Statement Risk
As of the reporting date, the Bank reports loans and advances, net of loan loss provisions of MNT 436,666,656 thousand, in the amount of MNT 3,054,731,766 thousand, representing 41.9% of total assets. In the financial year 2018, the Bank recorded an amount of MNT 129,204,862 thousand as provision for impairment losses in the statements of comprehensive income.

The financial statement risk arises particularly from estimation of uncertainties in the calculation of assessed loan loss allowance which are based upon judgmental assumptions including assessments of proceeds from collateral in accordance with the guidelines from Bank of Mongolia (BOM).

As part of our risk assessment, we identified the Asset Quality Review (AQR) Results from BOM in 2018 as a significant risk, due to bank-specific challenges.

Our Audit Approach
In order to perform a risk assessment and to plan our audit procedures, we obtained an understanding the accounting environment for financial institutions in Mongolia and the guidelines for loan evaluation revised by BOM etc. In addition, we assessed the Bank’s processes and key indicators used to derive the allowance for loan losses.

Based on our risk assessment, we established an audit approach including control and substantive testing.

In our controls testing, we assessed the design, implementation and operating effectiveness of key internal controls over approval, recording, monitoring and restructuring of loans and loan loss allowance.

In addition, we performed substantive audit procedures for the loans on a sample basis. These include but are not limited to the procedures to:

- test appropriateness of the loan classification,
- test the accuracy of the delinquency information by the relevant IT application controls,
- test the Bank’s assessment of the qualitative factors by challenging key assumptions applied by the Bank,
- compare the Bank’s classification against our understanding of the relevant industries, business, environment and the requirements of the BOM’s guidelines for provisioning,
- recalculate the loan loss provisions etc.

Our Observations
Based on the results of our testing of controls and substantive audit procedures, we consider the allowance for loan losses in accordance with BOM guidelines to be reasonable.

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 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 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 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 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

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 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 Bank, as a body, those in connection with the potential offering of US dollar notes by the Bank, 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
29 March 2019

This report is effective as at 29 March 2019, 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 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
Statements of Financial Position
As at 31 December 2018 and 2017

	Note	2018 MNT'000	2017 MNT'000
Assets			
Cash and due from banks	4	1,294,793,495	1,073,933,382
Investment securities	5	1,759,141,556	2,026,286,707
Investment in subsidiaries and associates	6	-	60,841,264
Loans and advances, net	7	3,054,731,766	2,764,974,569
Bills purchased under resale agreements	8	-	11,981,945
Property and equipment, net	9	397,500,104	324,138,590
Intangible assets, net	10	2,776,409	2,587,186
Investment property	11	80,114,526	91,951,413
Foreclosed real properties, net	12	2,723,159	2,808,306
Other assets	13	627,139,041	515,421,954
Non-current assets held for sale	14	64,869,626	-
Total assets		7,283,789,682	6,874,925,316
Liabilities and shareholders' equity			
Liabilities			
Deposits from customers	15	3,522,766,676	3,070,233,636
Deposits and placements by banks and other financial institutions	16	182,007,964	243,907,591
Bills sold under repurchase agreements	17	65,000,000	129,960,388
Borrowings	18	975,825,981	1,068,669,444
Current taxes liabilities		-	20,303
Debt securities issued	19	1,461,246,758	1,344,633,676
Other liabilities	20	148,162,221	141,967,647
Total liabilities		6,355,009,600	5,999,392,685
Equity			
Share capital	21	55,205,582	50,000,011
Share premium	21	210,393,158	19,272,456
Revaluation reserves	9, 22	129,231,895	130,014,323
Accumulated unrealised gain on available-for-sale financial assets	22	10,738,119	13,721,669
Accumulated unrealised gain on valuation of cash flow hedges	22	29,398,246	72,371,681
Retained earnings		493,813,082	590,152,491
Total equity		928,780,082	875,532,631
Total liabilities and equity		7,283,789,682	6,874,925,316

See accompanying notes to the financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statements of Comprehensive Income

For the years ended 31 December 2018 and 2017

	Note	2018 MNT'000	2017 MNT'000
Interest income	23	664,509,719	612,882,220
Interest expense	24	(475,765,337)	(434,121,831)
Net interest income		188,744,382	178,760,389
Net fee and commission income	25	38,524,029	37,039,956
Other operating income(expense), net	26	(8,929,419)	47,974,223
Net non-interest income		29,594,610	85,014,179
Operating profit		218,338,992	263,774,568
Operating expense	27	(91,779,552)	(89,930,081)
Share of profit of associates and joint ventures	6	15,491,654	15,858,850
Provision for impairment losses	28	(129,089,040)	(115,562,031)
Profit before tax		12,962,054	74,141,306
Income tax expense	30	(322,324)	(381,360)
Net profit for the year		12,639,730	73,759,946
Other comprehensive income (loss) for the year:			
Items that will never be reclassified to profit or loss			
Net change in revaluation reserves of property and equipment	9, 22	(782,428)	3,022,199
Items that are or may be reclassified to profit or loss			
Net unrealised change in fair value of available-for-sale financial assets	22	(2,984,025)	(16,497,585)
Net unrealised gain (loss) on valuation of cash flow hedges	22	(42,973,435)	57,466,279
Other comprehensive income (loss)		(46,739,888)	43,990,893
Total comprehensive income (loss) for the year		(34,100,158)	117,750,839
Profit attributable to:			
Equity holders of the Bank		12,639,730	73,759,946
Non-controlling interests		-	-
Net profit for the year		12,639,730	73,759,946
Total comprehensive income (loss) attributable to:			
Equity holders of the Bank		(34,100,158)	117,750,839
Non-controlling interests		-	-
Total comprehensive income (loss) for the year		(34,100,158)	117,750,839

See accompanying notes to the financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statements of Changes in Equity

For the years ended 31 December 2018 and 2017

		Attributable to equity holders of the Bank								(Unit : MNT'000)
	Note	Share capital	Share premium	Revaluation reserves	Accumulated unrealised gain(loss) on available-for-sale financial assets	Accumulated unrealised gain(loss) on valuation of cash flow hedges	Retained earnings	Total	Non-controlling interests	Total equity
1 January 2018		50,000,011	19,272,456	130,014,323	13,721,669	72,371,681	590,152,491	875,532,631	-	875,532,631
Total comprehensive income (loss)										
Net profit for the year		-	-	-	-	-	12,639,730	12,639,730	-	12,639,730
Other comprehensive income (loss)										
Net unrealised change in fair value of available-for-sale financial assets	22	-	-	-	(2,983,550)	-	-	(2,984,025)	-	(2,984,025)
Net change in revaluation reserves of property and equipment	9, 22	-	-	(782,428)	-	-	7,690,861	6,908,433	-	6,908,433
Net unrealised loss on valuation of cash flow hedges	22	-	-	-	-	(42,973,435)	-	(42,973,435)	-	(42,973,435)
Total other comprehensive income (loss)		-	-	(782,428)	(2,983,550)	(42,973,435)	7,690,861	(39,049,027)	-	(39,049,027)
Transactions with shareholders										
Issuance of new shares	21	5,205,571	191,120,702	-	-	-	-	196,326,273	-	196,326,273
Additional provision related to Asset Quality Review result		-	-	-	-	-	(116,670,000)	(116,670,000)	-	(116,670,000)
31 December 2018		55,205,582	210,393,158	129,231,895	10,738,119	29,398,246	493,813,082	928,780,082	-	928,780,082

See accompanying notes to the financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statements of Changes in Equity, Continued

For the years ended 31 December 2018 and 2017

		Attributable to equity holders of the Bank									(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	22	-	-	-	-	(16,497,585)	-	-	(16,497,585)	-	(16,497,585)
Net change in revaluation reserves of property and equipment	9, 22	-	-	-	3,022,199	-	-	-	3,022,199	-	3,022,199
Net unrealised loss on valuation of cash flow hedges	22	-	-	-	-	-	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.,		-	-	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 financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statements of Cash Flows

For the years ended 31 December 2018 and 2017

	Note	2018 MNT'000	2017 MNT'000
Cash flows from operating activities:			
Net profit for the year		12,639,730	73,759,946
Adjustments for:			
Depreciation and amortisation	9, 10, 27	9,627,054	9,605,279
Share of profit of associates and joint ventures	6	(15,491,654)	(15,858,850)
Loss(Gain) on disposal of securities	26	3,154,611	(14,168,548)
Loss on disposal of investment in subsidiary	26	10,759,812	-
Loss(Gain) on disposal of investment in associates and joint ventures	26	9,839,472	(8,556,355)
Net interest income	23, 24	(188,744,382)	(178,760,389)
Dividend income	26	(44,661)	-
Income tax expense	30	322,324	381,360
Gain on disposal of property and equipment	26	(54,545)	(4,868)
Loss on disposal of investment property	26	1,806,391	-
Property and equipment written off	27	41,279	140,534
Provision for impairment losses	28	129,089,040	115,562,031
Valuation gain on investment property	11, 26	(1,463,673)	(3,027,463)
Valuation gain on property and equipment	9	-	(117,643)
Operating profit before changes in operating assets and liabilities:		(28,519,202)	(21,044,966)
Increase in balances with BOM	4, 32	(42,412,826)	(70,864,203)
Increase in loans and advances		(475,869,052)	(45,631,007)
Decrease (Increase) in bills purchased under resale agreement	8	11,981,945	(11,981,945)
Decrease in subordinated loan		-	4,000,000
Decrease (Increase) in other assets(*)	13	(103,343,997)	176,213,881
Increase in deposits from customers	15	452,533,040	654,704,530
Increase (Decrease) in deposits and placements by banks and other financial institutions	16	(61,899,627)	100,699,920
Decrease in other liabilities(*)	20	(2,682,535)	(60,443,040)
Interest received		621,528,007	579,971,677
Dividend received		44,661	-
Interest paid		(457,975,935)	(435,529,091)
Income taxes paid		(342,627)	(374,540)
Net cash flows provided by (used in) operating activities		(86,958,148)	869,721,216
Cash flows from investing activities:			
Disposal of subsidiary		6,845,310	-
Purchase of investment securities	5	(498,874,879)	(734,444,700)
Disposal of investment securities	5	774,578,560	231,267,801
Disposal of investment in associates and joint ventures	6	895,711	24,387,146
Proceeds from disposal of investment properties	9	11,494,169	-
Purchase of property and equipment	9	(66,993,120)	(3,980,119)
Proceeds from disposal of property and equipment	10	64,358	7,710
Purchase of intangible assets	11	(1,644,483)	(446,628)
Proceeds from disposal of foreclosed real properties	12	468,726	-
Net cash flows provided by (used in) investing activities		226,883,013	(483,208,790)

See accompanying notes to the financial statements.

Statements of Cash Flows, Continued

For the years ended 31 December 2018 and 2017

	Note	2018 MNT'000	2017 MNT'000
Cash flows from financing activities:			
Repayments of bills sold under repurchase agreements	17	(64,960,388)	-
Proceeds from borrowings	18	964,881,151	529,125,941
Repayments of borrowings	18	(1,057,724,614)	(851,763,044)
Proceeds from debt securities issued	19	-	9,978,539
Repayments of debt securities issued	19	-	(234,711,793)
Repayment of subordinated debt issued		-	(24,895,300)
Issuance of new shares	21	196,326,273	-
Net cash flows provided by (used in) financing activities		38,522,422	(572,265,657)
Net Increase (Decrease) in cash and cash equivalents		178,447,287	(185,753,231)
Cash and cash equivalents at beginning of year		705,535,226	891,288,457
Cash and cash equivalents at end of year	32	883,982,513	705,535,226

(*) 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 financial statements.

1 Organisation and business

Trade and Development Bank of Mongolia LLC

Trade and Development Bank of Mongolia LLC (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"), which owns a 66.82% 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.

The Bank's subsidiaries, associates and joint ventures as of 31 December 2018 and 2017 were as follows:

Parent	Name	2018 Classification	Ownership (%)		Location	Reporting date	Industry
			2018	2017			
The Bank	TDB Capital LLC(*1)	Available-for-sale	10.0	100.0	Mongolia	31 December	Finance
	NNC LLC(*2)	Available-for-sale	9.9	36.9	Mongolia	31 December	Media
	MGL Leasing(*2)	Available-for-sale	10.0	55.0	Mongolia	31 December	Finance
	MIK Holding JSC(*2)	Available-for-sale	9.9	21.9	Mongolia	31 December	Mortgage

(*1) The Bank sold 90% of TDB Capital LLC (TDBC) shares in order to comply with the Banking Law of Mongolia modification which strictly forbids all banks to hold any non-banking company as their subsidiary or associate. The Bank recognised approximately 10.8 billion loss on disposal of TDBC shares.

(*2) Due to loss of control over TDBC, the Bank lost its significant influence over MIK holdings JSC, MG Leasing and NNC LLC, respectively. The Bank reclassified the remaining shares to available-for-sale investment securities, respectively.

As at 31 December 2018, the Bank does not hold any investments in subsidiaries or associates. However, in accordance with IAS 28, transactions until the disposal of these investment were recognised under equity method in the financial statements. The financial statements of comparative period are consolidated financial statements.

Accordingly, "the Group", previously referred to the controlling company and its subsidiaries, is replaced with "the Bank" in the financial statements.

2 Basis of preparation

Statement of compliance

The accompanying financial statements are 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, foreclosed properties and repossessed assets, at cost
- Accounting for deferred tax
- Postpone the effective date of IFRS 9 adoption

The financial statements were authorised for issue by the Board of Directors on 29 March 2019.

Basis of measurement

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

Use of estimates and judgments

The preparation of the 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 Bank in applying accounting policies that have the most significant effect on the amounts recognised in the 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 Bank and are consistent with those used in previous years.

Basis of consolidation

(i) Subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank 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 financial statements from the date that control commences until the date that control ceases.

(ii) Loss of control

When the Bank 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 financial statements. Intra-group losses are recognised as expense if intra-group losses indicate an impairment that requires recognition in the 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 Bank 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 Bank additionally acquires non-controlling interest, the Bank 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 Bank has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Bank 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 Bank 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 financial statements. Intra-group losses are recognised as expense if intra-group losses indicate an impairment that requires recognition in the financial statements.

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

When the Bank'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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank.

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 Bank derecognises a financial assets when the contractual rights to the cash flows from the financial asset expire, or the Bank 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 Bank 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 Bank 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 Bank 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.

(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 statements of comprehensive income.

3 Significant accounting policies (continued)

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 Bank in the management of short-term commitments.

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 Bank 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.

3 Significant accounting policies (continued)

Property and equipment (continued)

(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.

Intangible assets

(i) Acquired intangible assets

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

(ii) Amortisation

Amortisation is charged to the 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 Bank shall revaluate it at the fair value at the date of change in use, and reclassify it to investment property.

3 Significant accounting policies (continued)

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 BOM Provisioning Guidelines, jointly approved by the President of BOM and Ministry of Finance. Such a model classifies the Bank'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.

Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale. The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. Immediately before the classification of the asset as held for sale, the carrying amount of the asset is re-measured in accordance with applicable IFRS. Thereafter, generally the assets are measured at the lower of their carrying amount and fair value less costs to sell.

If the non-current asset is classified as asset held for sale, the asset is no longer depreciated.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss in accordance with IAS 36 Impairment of Assets.

3 Significant accounting policies (continued)

Impairment

The carrying amounts of the Bank'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 Bank 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 Bank'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 Bank 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 Bank 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 Bank'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 Bank'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 Bank 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 Bank 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 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 statements of comprehensive income.

3 Significant accounting policies (continued)

Repurchase agreements

The Bank 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 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 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 statements of financial position when the Bank 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 Bank 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 Bank's other components. All operating segments' operating results are regularly reviewed by the Company'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 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 Bank 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 measured upon the determined transaction price from contract with customers and recognised when the corresponding service is provided.

(iii) Rental income

Rental income from leased property is recognised in the 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 statements of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the 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 Bank 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 Bank which are not possible to quantify at this stage.

Employee benefits

The Bank 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 Bank are recognised as an expense in the statements of comprehensive income as incurred.

New standards and interpretations adopted

The Bank applied the following new accounting standard from January 1, 2018.

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

The Bank applied IFRS 15 Revenue from Contracts with Customers. This standard replaced IAS 18 Revenue, IAS 11 Accounting for Construction, SIC-31 Revenue - Barter Transactions Involving Advertising Services, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real, and IFRIC 18 Transfers of Assets from Customers.

Standards such as IAS 18 and others provide revenue recognition criteria for different types of transactions such as sales of goods, rendering of services, interest, royalties, dividends, and construction contracts. However, the revenue under the new standard IFRS 15 is recognised by applying the five-step model (① Identifying the contract → ② Identifying performance obligations → ③ Determine the transaction price → ④ Allocating the transaction price to performance obligations → ⑤ Recognize revenue upon satisfaction of performance obligation).

The Bank had analysed the impact from IFRS 15 as at 1 January 2018, and concluded no significant impact on the financial statements. There were no significant transactions which could have impact on the financial statements in 2018.

3 Significant accounting policies (continued)

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 on or after January 1, 2019, and the Bank 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. However, BOM postponed the effective date of IFRS 9 for Mongolian commercial banks to January 1, 2020.

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

(ii) IFRS 16 Leases (IFRS 16)

IFRS 16 Leases will replace IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives, SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Bank shall assess whether the contract is, or contains, a lease at inception of a contract and at the date of initial application. However, as a practical expedient, the Bank is not required to reassess whether a contract is, or contains, a lease at the date of initial application.

For a contract that is, or contains, a lease, lessees and lessors shall account for each lease component within the contract as a lease separately from non-lease components of the contract.

Lessee shall recognize right-of-use assets which represents a lessee’s right to use an underlying asset and lease liabilities which represents obligation to make payments. However, exceptions may be applied for short-term leases and leases of low-value assets. In addition, as a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Bank plans to apply to this standard for annual periods beginning on January 2019. The Bank is currently assessing the impact of IFRS 16 as at 31 December 2018.

4 Cash and due from banks

	2018 MNT'000	2017 MNT'000
Cash on hand	77,762,969	62,641,118
Deposits and placements with banks and other financial institutions	279,835,253	218,623,755
Balances with BOM(*)	937,195,273	792,668,509
	1,294,793,495	1,073,933,382

(*) At 31 December 2018, BOM requires that a minimum of 10.5% of average customer deposits for MNT, and 12% percent of average customer deposits for foreign currency must be maintained for two weeks with BOM. In December 2017, BOM required that a minimum 12% of average customer deposits for two weeks must be maintained with BOM. In relation to the daily requirement, the Bank also should maintain no less than 50% of the required reserve amount at the end of each day. At 31 December 2018 and 2017, the required reserve amount was MNT 410,810,982 thousand and MNT 368,398,156 thousand, respectively.

5 Investment securities

	2018 MNT'000	2017 MNT'000
Available-for-sale investment securities		
Unquoted equity securities, at cost(*1)	3,552,205	443,430
Repossessed assets, at cost(*2)	75,260,890	92,257,890
Equity securities, at fair value	51,388,358	22,898,445
Government bonds	25,212,595	1,870,111
Bank of Mongolia Treasury bills	443,184,145	684,543,820
Residential mortgage-backed securities	102,802,800	105,177,000
	701,400,993	907,190,696
Held-to-maturity investment securities		
Government bonds	992,740,563	992,667,318
Development Bank of Mongolia bonds	65,000,000	126,428,693
	1,057,740,563	1,119,096,011
	1,759,141,556	2,026,286,707

(*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 Bank acquired the shares of the Mongolian National Rare Earth Corp LLC ("MNREC") based on a separate agreement between the Bank and MNREC's shareholder where MNREC shares are transferred to the Bank if MNREC does not repay the loan. The Bank 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. The Bank recognised impairment loss of MNT 16,997,000 thousand as a result of AQR in 2018.

6 Investment in associates and joint ventures

	2018 MNT'000	2017 MNT'000
Investment in MIK Holding JSC	-	44,331,909
Investment in MG Leasing LLC	-	5,480,743
Investment in NNC LLC	-	11,028,612
	-	60,841,264

The Bank sold 90% of TDB Capital LLC (TDBC) shares in 2018. As a result of selling TDBC shares, the Bank lost control over TDBC and reclassified the remaining shares to available-for-sale investment securities. Accordingly, the Bank lost its significant influence over MIK holdings JSC, MG Leasing and NNC LLC, respectively. The Bank reclassified the remaining shares to available-for-sale investment securities, respectively.

Condensed financial statements of associates and join-ventures as at 31 December 2018 and 2017, and for the years ended 31 December 2018 and 2017 were as follows:

	2018 MNT'000		2017 MNT'000	
Investees	Asset	Liability	Asset	Liability
MIK Holding JSC	3,186,975,027	2,997,171,098	2,778,947,860	2,612,635,129
MG Leasing LLC	179,370,169	164,262,242	87,739,238	77,774,249
NNC LLC	40,138,303	12,039,301	41,893,789	13,351,833

	2018 MNT'000		2017 MNT'000	
Investees	Operating revenue	Net income(loss)	Operating revenue	Net income(loss)
MIK Holding JSC	235,482,019	58,933,072	216,078,035	65,032,240
MG Leasing LLC	12,154,861	5,142,938	7,407,715	2,860,446
NNC LLC	6,512,922	(553,412)	6,253,272	(2,460,144)

7 Loans and advances

	2018 MNT'000	2017 MNT'000
Loans and advances to customers	3,456,658,750	3,002,411,299
Loans to executives, directors and staff	34,739,672	30,495,732
	3,491,398,422	3,032,907,031
Allowance for loan losses	(436,666,656)	(267,932,462)
	3,054,731,766	2,764,974,569

Movements in the allowance for loan losses for the years ended 31 December 2018 and 2017 were as follows:

	2018 MNT'000	2017 MNT'000
At 1 January	267,932,462	153,566,637
Provision for the year, net(*1)	228,877,862	114,365,825
Written off	(60,143,668)	-
At 31 December	436,666,656	267,932,462

(*1) The AQR result included.

In addition, the Bank transferred its mortgage loans to MIK SPCs with carrying amounts of MNT 109,394,123 thousand and MNT 170,632,476 thousand during 2018 and 2017, respectively. These transactions qualified for derecognition.

The Bank transferred pool of mortgage loans with carrying amounts of MNT 309,670 thousand to Mongolian Mortgage Corporation HFC LLC during 2018. 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 Bank did not derecognize in the financial statements but accounted for these transactions as collateralised financing for which the balance at 31 December 2018 amounted to MNT 4,162,660 thousand. (Note 18)

The Bank 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 Bank and the Bank granted certain loans.

8 Bills purchased under resale agreements

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

9 Property and equipment

Property and equipment as at 31 December 2018 and 2017 were as follows:

31 December 2018
(In MNT'000)

	Buildings	Office equipment and motor vehicles	Computers and others	Construction-in-progress(*1)	Total
At cost/revaluation					
At cost	38,457,088	10,716,262	26,326,256	142,820,691	218,320,297
At revaluation	130,014,323	-	-	-	130,014,323
At 1 January 2018	168,471,411	10,716,262	26,326,256	142,820,691	348,334,620
Additions	-	10,637,429	8,907,851	55,148,467	74,693,747
Disposals	-	(339,715)	(4,830,250)	-	(5,169,965)
Write-offs	-	(585,907)	(985,964)	-	(1,571,871)
Revaluation surplus(*1)	4,386,864	-	-	-	4,386,864
Change in consolidation scope	-	(33,337)	(50,264)	-	(83,601)
At 31 December 2018	172,858,275	20,394,732	29,367,629	197,969,158	420,589,794
Measured at:					
Cost	38,457,088	20,394,732	29,367,629	197,969,158	286,188,607
Revaluation	134,401,187	-	-	-	134,401,187
	172,858,275	20,394,732	29,367,629	197,969,158	420,589,794
Accumulated depreciation					
At 1 January 2018	591,374	4,970,701	18,633,955	-	24,196,030
Charge for the year	3,406,098	1,001,208	3,761,897	-	8,169,203
Disposals	-	(339,715)	(4,830,250)	-	(5,169,965)
Write-offs	-	(545,261)	(985,331)	-	(1,530,592)
Revaluation surplus	(2,521,571)	-	-	-	(2,521,571)
Change in consolidation scope	-	(17,858)	(35,557)	-	(53,415)
At 31 December 2018	1,475,901	5,069,075	16,544,714	-	23,089,690
Carrying amounts					
At 31 December 2018	171,382,374	15,325,657	12,822,915	197,969,158	397,500,104

(*1) Construction–in–progress account mainly consists of costs for construction of the Bank's new office building and branch buildings. The Bank made a contract to build its new corporate head office with Riverstone Property LLC and paid MNT 136,973,200 thousand and MNT 52,683,800 thousand in June 2016 and December 2018 respectively. During 2018, Riverstone Property LLC had acquired all permissions of construction from the Ministry of Construction and Urban Development and started the actual construction. The building will be completed in 2022.

9 Property and equipment (continued)

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 Bank 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 Bank's new office building and branch buildings. The Bank 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.

9 Property and equipment (continued)

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

Date of valuation	Description of property	Basis of valuation
31 December 2016	Buildings	Market value
31 December 2017	Buildings	Market value
31 December 2018	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: 6,018 ~ 8,957	The estimated fair value would increase (decrease) if: Expected market price for proxy land ownership, buildings and apartments was higher (lower).

10 Intangible assets

	2018 MNT'000	**2017 MNT'000**
Cost		
At 1 January	13,030,544	14,386,501
Additions		
Software	1,657,600	446,628
Write-offs	-	(5,676)
Change in consolidation scope	(2,822,989)	(1,796,909)
At 31 December	11,865,155	13,030,544
Amortisation		
At 1 January	10,443,358	9,338,385
Amortisation charge for the year(*1)	1,457,852	1,480,796
Write-offs	-	(5,676)
Change in consolidation scope	(2,812,464)	(370,147)
At 31 December	9,088,746	10,443,358
Carrying amounts		
At 31 December	2,776,409	2,587,186

(*1) Amortisation is charged for software.

11 Investment property

	2018 MNT'000	2017 MNT'000
At 1 January	91,951,413	88,923,950
Disposals	(13,300,560)	-
Change in fair value	1,463,673	3,027,463
At 31 December	80,114,526	91,951,413

The fair value of investment property was appraised by an independent professional valuation company. The independent appraiser provides the fair value of the Bank'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 2018 and 2017.

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: 5,547 ~ 8,957	The estimated fair value would increase (decrease) if: Expected market price for proxy buildings was higher (lower).

12 Foreclosed real properties

	2018 MNT'000	2017 MNT'000
Industrial buildings	11,820,677	12,129,207
Apartments and houses	1,263,746	1,358,786
Less: Allowances	(10,361,264)	(10,679,687)
	2,723,159	2,808,306

During 2018 and 2017, an allowance of MNT 1,405,822 thousand and MNT 481,869 thousand were written back upon recovery from foreclosed real properties, respectively, and foreclosed real properties were not written off against impairment losses.

13 Other assets

	2018 MNT'000	2017 MNT'000
Precious metals	54,974	32,149
Accrued interest receivables	212,328,654	170,379,528
Prepayment	4,006,574	3,634,799
Inventory supplies	1,084,523	871,872
Hedging instruments(*1)(*2)(*3)	379,263,246	314,341,681
Domestic exchange settlement receivables	5,558,175	14,042,067
Other receivables, net(*4)	24,842,895	12,119,858
	627,139,041	515,421,954

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

	2018 MNT'000	2017 MNT'000
Beginning balance	42,926,708	61,359,941
Deferral	-	-
Amortisation(*)	(18,433,233)	(18,433,233)
Ending balance	24,493,475	42,926,708

(*) Amortisation of deferred gains were recognised as other comprehensive income for the years ended 31 December 2017 and 2018, in connection with cash flow hedge, as the effective portion of changes in fair value of the derivative.

(*2) The Bank 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.

(*3) Changes in other comprehensive income recognised as effective portion of cash flow hedge for the years ended 31 December 2018 and 2017 were as follows:

	2018 MNT'000	2017 MNT'000
Beginning balance	72,371,681	14,905,402
Increase	64,921,565	26,266,279
Reclassification(*)	(107,895,000)	31,200,000
Ending balance	29,398,246	72,371,681

(*) Valuation gain which were reclassified to profit or loss for the years ended 31 December 2018 and 2017. The recognised amount of the ineffective portion of the gain or loss on the hedging instruments is nil. The Bank expects that the period, when derivative contracts designated as a cash flow hedge are exposed to cash flow volatility risk as at 31 December 2018, will be up until 29 April 2020.

(*4) Other receivables are presented net of impairment losses amounting to MNT 724,883 thousand and MNT 795,115 thousand as at 31 December 2018 and 2017, respectively.

14 Non-current assets held for sale

During 2018, the Bank classified 10 buildings of foreclosed real properties into non-current assets held for sale. The Bank initiated a specific plan that the sale will be completed within a year of the classification of assets as held for sale. And the Bank expect the sale plan to be highly probable as at 31 December 2018.

Assets held for sale as at 31 December 2018 were as follows:

	2018 MNT'000
Acquisition cost	65,313,807
Accumulated impairment losses	(444,181)
	64,869,626

Changes in accumulated impairment losses on assets held for sale for the years ended 31 December 2018 were as follows:

	2018 MNT'000
Beginning balance	-
Impairment losses	444,181
Ending balance	444,181

15 Deposits from customers

	2018 MNT'000	2017 MNT'000
Current accounts	1,570,821,745	1,243,670,776
Savings deposits	313,527,953	256,649,910
Time deposits	1,582,392,670	1,507,655,252
Other deposits	56,024,308	62,257,698
	3,522,766,676	3,070,233,636

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 1.62% and 3.68% (2017: 2.26% and 3.54%) per annum for foreign and local currency accounts, respectively.

Foreign and local currency savings deposits bear interest at a rate of approximately 1.91% and 5.96% (2017: 1.92% and 5.95%), respectively.

Foreign and local currency time deposits bear interest at a rate of approximately 5.80% and 13.79% (2017: 6.23% and 14.63%), respectively.

16 Deposits and placements by banks and other financial institutions

	2018 MNT'000	2017 MNT'000
Current accounts deposits:		
Foreign currency deposits	33,430,063	34,606,332
Local currency deposits	1,610,332	11,209,388
Foreign currency cheques for selling	4,444	12,722
Deposits from banks	146,963,125	198,079,149
	182,007,964	243,907,591

17 Bills sold under repurchase agreements

Contract party	Sold date	Maturity	Interest rate	2018 MNT'000	2017 MNT'000
Development Bank of Mongolia	8 Feb 2016	21 Sep 2018	7.5%	-	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
				65,000,000	129,960,388

The Bank entered into repurchase agreement with Bank of Mongolia ("BOM"), the agreement where the Bank sold DBM investment securities under repurchase agreement at an aggregate amount of MNT 65,000,000 thousand.

18 Borrowings

	2018 MNT'000	2017 MNT'000
Kreditanstalt fuer Wiederaufbau	4,206,674	4,165,879
World Bank	341,807	594,945
Asian Development Bank	21,110,953	15,359,262
International Development Association	1,151,618	1,115,842
Export-Import Bank of Republic of China	3,238,170	3,890,984
Japan International Cooperation Agency	25,183,563	27,131,236
Atlantic Forfaitierungs AG	12,950,631	16,807,091
SME Fund, Ministry of Industry	1,672,250	3,307,611
Commerzbank AG	51,180,191	55,695,530
Industrial and Commercial Bank of China	4,947,546	-
ING Bank	2,989,381	-
Baoshang Bank	115,001,341	2,687,071
Sumitomo Mitsui Banking Corporation	19,597,813	70,995,831
Netherlands Development Finance Company	-	4,045,217
Development Bank of Mongolia	178,241,208	261,291,378
Mortgage Financing Programme by BOM,MOF	107,099,892	163,720,745
TDB Syndicated Facility	-	28,173,139
Cargill TSF Asia Pte.Ltd	78,286,684	58,814,851
Cargill Financial Services International, INC	-	127,424,325
China Trade Solutions	1,594,846	1,510,436
Erste Group Bank	15,857,520	1,440,677
Banca Popolare di Sondrio	-	27,613,115
Banco Popular Espanol	-	16,572,301
OPEC Fund for International Development	-	60,405,858
Japan Bank of International Cooperation	14,018,110	20,325,499
Agricultural Bank of China	3,481,985	-
Mongolian Mortgage Corporation HFC LLC	4,162,660	5,224,622
Chailease International Financial Services	-	4,235,559
China Development Bank	52,665,710	48,205,091
Bank of Inner Mongolia	30,269,336	1,751,112
Promsvyazbank	-	12,135,650
Transkapitalbank	22,630,373	15,776,345
International Bank for Economic Co-operation	26,304,190	8,252,242
VTB bank Russia	177,255,552	-
Crowdcredit Estonia OÜ	385,977	-
	975,825,981	1,068,669,444

18 Borrowings (continued)

Kreditanstalt fuer Wiederaufbau ("KfW")

(a) In 1997, the Bank entered into Financing Agreement with KfW through Bank of Mongolia, under which the Bank 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 107,144 (MNT 324,502 thousand) and EUR 408,572 (MNT 1,183,988 thousand) at 31 December 2018 and 2017, 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 3,882,172 thousand and MNT 2,981,891 thousand at 31 December 2018 and 2017, respectively. The loan bears interest at a fixed rate of 5% per annum and 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 Bank entered into the TDB Subsidiary Loan Agreement with World Bank, under which the Bank 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 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. The outstanding World Bank USD loan amounted to USD 36,000 (MNT 87,377 thousand) at 31 December 2017. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

(b) Under the TDB Subsidiary Loan Agreement as described in (a) above, the Bank 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 12,000 thousand and MNT 156,000 thousand at 31 December 2018 and 2017, 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 Bank 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 Bank '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 124,789 (MNT 329,807 thousand) and USD 144,849 (MNT 351,568 thousand) at 31 December 2018 and 2017, 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 Bank obtained a USD loan in the amount of USD 134,164 from ADB via BOM to upgrade the Bank's accounting information systems. The outstanding loan amounted to USD 58,138 (MNT 153,653 thousand) and USD 62,610 (MNT 151,962 thousand) at 31 December 2018 and 2017, 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 Bank entered into a Finance Agreement with ADB, under which the Bank 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 Bank can also borrow in MNT. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers. The outstanding MNT loan amounted to MNT 250,000 thousand at 31 December 2017. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

(c) In 2016, an On-Lending Agreement for additional financing was made between the Bank and Ministry of Finance ("MOF"). Under this agreement the Bank 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 4.5% and USD 3.5% per annum. The outstanding MNT loan amounted to MNT 20,957,300 thousand and MNT 14,957,300 thousand at 31 December 2018 and 2017, respectively.

(d) As at 31 December 2018, the Bank breached financial covenant specifying NPL ratio requirement with ADB. Due to such breach in financial covenant, ADB may temporarily suspend TDB's right to obtain additional fund under the program. The Bank considers such breach will not have significant influence on the financial statement of the Bank.

International Development Association ("IDA")

In 1998, the Bank 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 Bank. The outstanding IDA loan amounted to USD 435,737 (MNT 1,151,618 thousand) and USD 459,737 (MNT 1,115,842 thousand) at 31 December 2018 and 2017, 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 January 2037.

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

In 2004, the Bank entered into a Relending facility with TEXIM under which the Bank could borrow up to USD 5,000,000 for relending purposes to finance customers who purchase machinery and other manufactured goods produced in Taiwan. The outstanding borrowings under agreement amounted to USD 1,225,224 (MNT 3,238,170 thousand) and USD 1,603,121 (MNT 3,890,984 thousand) at 31 December 2018 and at 31 December 2017, respectively. The loan bears interest at six-month LIBOR USD rate plus a margin of 1.25% per annum. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

18 Borrowings (continued)

Japan International Cooperation Agency (“JICA”)

(a) In 2006, the Bank entered into a Loan Financing Agreement with JICA, under which the Bank 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 23,500 (MNT 62,109 thousand) and USD 53,500 (MNT 129,852 thousand) at 31 December 2018 and 2017, 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 935,003 thousand and MNT 1,352,876 thousand at 31 December 2018 and 2017, 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 Bank entered into another Loan Financing Agreement with JICA, under which the Bank 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 606,900 (MNT 1,603,988 thousand) and MNT 22,582,463 thousand at 31 December 2018, and USD 873,000 (MNT 2,118,885 thousand) and MNT 23,529,623 thousand at 31 December 2017. 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.

Atlantic Forfaitierungs AG (“AF”)

In 2009, the Bank entered into a Facility Agreement with AF for the purpose of relending to customers participating in a plantation support fund. The outstanding borrowings amounted to USD 3,161,289 (MNT 8,355,033 thousand) and EUR 1,517,375 (MNT 4,595,598) at 31 December 2018 and USD 6,924,677 (MNT 16,807,091 thousand) at 31 December 2017. 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.

18 Borrowings (continued)

SME Fund, Ministry of Food, Agriculture and Light Industry

(a) In 2009, the Bank 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 Bank renewed this facility agreement, and the aggregate budget increased to MNT 60,000,000 thousand and MNT 150,000,000 thousand, respectively. In February 2016, the Bank 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 loan bears interest at a fixed rate of 1.2% per annum with varying repayment dates depending on the draw date. The outstanding borrowings amounted to MNT 622,735 thousand and MNT 1,071,608 thousand at 31 December 2018 and 2017, respectively.

(b) In August 2014, the Bank 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 1,049,516 thousand and MNT 2,236,003 thousand at 31 December 2018 and 2017, 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 Bank 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 Bank and the customer on a case by case basis. Under this facility agreement, the Bank has outstanding loans of USD 13,980,529 (MNT 36,949,420 thousand) and EUR 4,698,718 (MNT 14,230,771 thousand) at 31 December 2018, and USD 16,241,605 (MNT 39,420,487 thousand) and EUR 5,616,209 (MNT 16,275,043 thousand) at 31 December 2017. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Industrial and Commercial Bank of China

In 2014, the Bank has obtained a trade finance line with ICBC for relending purposes or confirmation of letter of credit. 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 Bank and the customer on a case by case basis. The outstanding loan amounted to USD 1,872,000 (MNT 4,947,546 thousand) at 31 December 2018.

18 Borrowings (continued)

ING Bank

In 2011, the Bank has obtained a trade finance line with ING for relending purposes or confirmation of letter of credit. 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 Bank 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 Bank has outstanding loan amounted to USD 1,131,090 (MNT 2,989,381 thousand) at 31 December 2018.

Baoshang Bank

(a) In May 2017, the Bank 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 6,144,064 (MNT 16,238,271 thousand) and CNY 7,000,000 (MNT 2,700,110 thousand) at 31 December 2018 and USD 938,694 (MNT 2,278,333 thousand) and CNY 1,100,000 (MNT 408,738 thousand) at 31 December 2017.

(b) In April 2018, the Bank entered into an Inter-Bank Syndicated Loan agreement with Baoshang Bank and Huishang Bank, under which the Bank can borrow CNY loans up to the amount equivalent to CNY 250,000,000. The outstanding loan under this facility amounted to CNY 249,041,970 (MNT 96,062,959 thousand) at 31 December 2018.

Sumitomo Mitsui Banking Corporation ("SMBC")

In March 2012, the Bank entered into a Refinancing Letter of Credit Facilities Agreement with SMBC under which the Bank 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 1,716,214 (MNT 4,535,816 thousand) and JPY 629,156,100 (MNT 15,061,997 thousand) at 31 December 2018, and USD 24,747,422 (MNT 60,065,211 thousand) and JPY 507,692,500 (MNT 10,930,620 thousand) at 31 December 2017. 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 Bank entered into a Senior Term Facility Agreement with FMO under which the Bank 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) at 31 December 2017. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

China Trade Solutions

The Bank 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 Bank and the customer on a case by case basis. The outstanding loan amounted to USD 603,441 (MNT 1,594,846 thousand) and USD 622,313 (MNT 1,510,436 thousand) at 31 December 2018 and 2017, respectively.

18 Borrowings (continued)

Development Bank of Mongolia

(a) In July 2014, the Bank 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 1,017,282 thousand and MNT 1,969,241 thousand at 31 December 2018 and 2017, 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 Bank 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 37,754,800 thousand and MNT 50,505,400 thousand at 31 December 2018 and 2017, 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 Bank 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 1,748,148 thousand and MNT 8,174,713 thousand at 31 December 2018 and 2017, respectively.

(d) In September 2015, the Bank 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 Bank 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 MNT 8,797,000 thousand and USD 727,974 (MNT 1,923,978 thousand) at 31 December 2018, and MNT 10,386,000 thousand and USD 776,528 (MNT 1,884,733 thousand) at 31 December 2017, respectively.

(e) In September and December 2015, the Bank 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 125,000,000 thousand and MNT 176,197,541 at 31 December 2018 and 2017, respectively.

(f) In April 2016, the Bank 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 at 31 December 2017. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

18 Borrowings (continued)

Development Bank of Mongolia (continued)

(g) In April 2016, the Bank 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 at 31 December 2017. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

(h) In June 2018, the Bank 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 150 billion for above facility. The loan bears interest at a fixed rate of 10.0% per annum with varying repayment dates depending on the drawdown date. The outstanding borrowings under this credit facility amounted to MNT 2,000,000 thousand at 31 December 2018.

Mortgage Financing Programme by BOM, MOF

In 2013, the Bank 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 77,638,432 thousand and Ministry of Finance loan amounted to MNT 29,461,460 thousand at 31 December 2018 and MNT 138,273,907 thousand and Ministry of Finance loan amounted to MNT 25,446,838 thousand at 31 December 2017, respectively. The loan bears interest at a fixed rate of 2.0% and 4.0% per annum with varying repayment dates depending on the drawdown date.

Erste Group Bank

The Bank 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 Bank has outstanding loans of USD 6,000,000 (MNT 15,857,520 thousand) and EUR 497,150 (MNT 1,440,677 thousand) at 31 December 2018 and 2017, 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.

Agricultural Bank of China

In 2011, the Bank entered into an Import Financing Agreement which enables the Bank to finance its customers for import goods. In 2018, the Bank extended an Import Financing Agreement with Agricultural Bank of China. 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 9,027,000 (MNT 3,481,985 thousand) at 31 December 2018.

Japan Bank of International Cooperation ("JBIC")

In 2013, the Bank 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 Bank can obtain JPY and USD loans up to the total financing amount of JPY 8,000,000 thousand. The outstanding loan amounted to JPY 585,551,795 (MNT 14,018,110 thousand) and JPY 944,054,778 (MNT 20,325,499 thousand) at 31 December 2018 and 2017, respectively. The loan matures in July 2020 and bears base interest at a rate of 3.13%.

18 Borrowings (continued)

OPEC Fund for International Development ("OFID")

In August 2015, the Bank entered into a Trade Finance Term Loan Agreement with the OFID under which the Bank 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) at 31 December 2017. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

TDB Syndicated Facility

In September 2013, the Bank 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 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) at 31 December 2017. The principal was payable in accordance with the facility agreement and the interest was repayable semi-annually until final repayment executed in September 2018. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

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 Bank and the customer on a case by case basis. The Bank 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. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

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 Bank and the customer on a case by case basis. The Bank 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. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

Cargill TSF Asia Pte.Ltd

Since May 2014, the Bank entered into a trade related loan agreement under which the Bank financed import of goods amounted to USD 29,621,284 (MNT 78,286,684 thousand) and USD 24,232,262 (MNT 58,814,851 thousand) at 31 December 2018 and 2017, 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.

18 Borrowings (continued)

Cargill Financial Services International, Inc

In December 2014, May 2015 and November 2015 the Bank entered into a Trade related Loan Agreement under which the Bank for financing of import of goods for the total amount of USD 25,000,000, USD 8,800,000 and 51,500,000 with tenor of 2 years, respectively. The interest of this particular loan varies with each drawdown which is determined by Cargill Financial Services International, Inc. The outstanding loan amounted to USD 52,500,000 (MNT 127,424,325 thousand) at 31 December 2017. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

Mongolian Mortgage Corporation HFC LLC

In August 2017 and 2018 the Bank transferred pool of mortgage loans with carrying amounts of MNT 5,370,059 thousand and MNT 309,670 thousand to MIK. 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 Bank accounted for these transactions as collateralised financing for which the balance amounted to MNT 4,162,660 thousand and MNT 5,224,622 thousand at 31 December 2018 and 2017, respectively.

Chailease International Financial Services

In January 2016, the Bank entered into bilateral loan agreement with Chailease International Financial Services for the amount of USD 2,500,000. The outstanding loan amounted to USD 1,745,090 (MNT 4,235,559 thousand) at 31 December 2017. The facility has been fully repaid in 4 installments of 5%, 12.5%, 12.5% and 70% during 2018.

China Development Bank

In July 2016, the Bank entered into USD 20,000,00 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 in January 2020. The outstanding loan amounted to USD 19,927,092 (MNT 52,665,710 thousand) and USD 19,860,943 (MNT 48,205,091) at 31 December 2018 and 2017, respectively.

Bank of Inner Mongolia

In November 2016, the Bank 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 Bank and the customer on a case by case basis. In February 2018, the Bank renewed this Trade Finance Facilities Agreement with Bank of Inner Mongolia. The outstanding loan amounted to CNY 76,341,971 (MNT 29,447,388 thousand) and USD 311,000 (MNT 821,948 thousand) at 31 December 2018, and 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 transaction between Russian Federation and Mongolia. In September 2017, the Bank 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. The loan has been fully repaid and there was no outstanding loan at 31 December 2018.

18 Borrowings (continued)

Transkapitalbank

In 2017, the Bank 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 8,562,640 (MNT 22,630,373 thousand) and USD 6,500,000 (MNT 15,776,345 thousand) at 31 December 2018 and 2017, respectively.

International Bank for Economic Co-operation

In 2017, the Bank signed a Master financing agreement with the International bank for Economic co-operation for purposes of financing by the Bank of foreign economic transactions of the Bank's customers. The loan bears interest at a fixed rate of 5.5% per annum, and the maturity is December 2018. The outstanding borrowings amounted to USD 9,952,700 (MNT 26,304,190 thousand) and USD 3,400,000 (MNT 8,252,242 thousand) at 31 December 2018 and 2017, respectively.

VTB Bank Russia

In 2017, the Bank entered into USD 70 million credit facility agreement insured by EXIAR (REC Group) with VTB Bank. Growing demand for fuels and oil products, the facility designates to finance imports and consumption of petroleum products in Mongolia. The outstanding loan amounted to USD 67,068,073 (MNT 177,255,552 thousand) at 31 December 2018.

Crowdcredit Estonia OÜ

In November 2018, the Bank entered into Master Facility Agreement with Crowdcredit Inc. for the purpose of financing Small and Medium Enterprise loans in Mongolia. The outstanding loan amounted to MNT 385,978 thousand at 31 December 2018. The loan matures in June 2020 and bears base interest at the rate of 12%.

19 Debt securities issued

	2018 MNT'000	2017 MNT'000
Debt securities issued, at amortised cost	1,461,246,758	1,344,633,676

On 19 May 2015, the Bank 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 Bank 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 2018 and 2017, the respective debt securities accreted by MNT 11,290,293 thousand and MNT 9,493,265 thousand, respectively, using the effective interest method.

The Bank 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 Other liabilities

	2018 MNT'000	2017 MNT'000
Accrued interest payables	101,544,963	92,667,854
Delay on clearing settlement	19,138,808	16,051,052
Derivative liabilities for trading	1,515,973	6,750
Finance lease payable	1,441,315	2,591,014
Domestic exchange obligation payables	6,229,201	11,197,320
Others	18,291,961	19,453,657
	148,162,221	141,967,647

21 Share capital and share premium

	Numbers of ordinary shares		Share capital MNT'000		Share premium MNT'000	
	2018	2017	2018	2017	2018	2017
At 1 January	3,305,056	3,305,056	50,000,011	50,000,011	19,272,456	19,272,456
Issued during the year	344,094	-	5,205,571	-	191,120,702	-
At 31 December	3,649,150	3,305,056	55,205,582	50,000,011	210,393,158	19,272,456

As at 31 December 2018 and 2017, the issued and outstanding shares are 3,649,150 and 3,305,506, respectively out of 4,000,000 authorised shares. In 2018, the Bank increased its capital with additional 344,094 shares at MNT 570,560 per share. As at 31 December 2018 and 2017, all issued shares were fully paid and have a par value of MNT 15,128.

22 Accumulated other comprehensive income

	2018 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	13,721,669	72,371,681	130,014,323	216,107,673
Changes in fair value	(3,053,015)	-	6,908,435	3,855,420
Net unrealised gain on valuation of cash flow hedges	-	(42,973,435)	-	(42,973,435)
Changes due to disposal and write-offs	69,465	-	(7,690,863)	(7,621,398)
Ending balance	10,738,119	29,398,246	129,231,895	169,368,260

	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

23 Interest income

	2018 MNT'000	2017 MNT'000
Loans and advances	396,982,265	365,018,080
Investment securities	250,608,095	230,974,639
Deposits and placements with banks and other financial institutions	16,518,081	16,618,825
Bills purchased under resale agreements	401,278	33,343
Subordinated loans	-	237,333
	664,509,719	612,882,220

24 Interest expense

	2018 MNT'000	2017 MNT'000
Deposits	246,701,231	193,364,035
Borrowings	75,935,944	86,085,993
Bills sold under repurchase agreements	8,558,099	9,786,092
Debt securities issued	145,100,424	143,782,741
Subordinated debt issued	-	1,102,970
	475,765,337	434,121,831

25 Net fee and commission income

	2018 MNT'000	2017 MNT'000
Fee and commission income		
Wire transfer	8,641,031	7,309,924
Card service	21,506,676	18,175,047
Loan related service	15,925,893	17,565,787
Others	5,201,891	4,088,163
Total fee and commission income	51,289,491	47,138,921
Fee and commission expenses		
Card service expense	9,688,829	7,846,858
Others	3,076,633	2,252,107
Total fee and commission expenses	12,765,462	10,098,965
Net fee and commission income	38,524,029	37,039,956

26 Other operating income(expense), net

	2018 MNT'000	2017 MNT'000
Foreign exchange gain, net	15,786,155	15,437,750
Precious metal trading gain (loss), net	(1,438,691)	273,581
Gain (Loss) on disposal of securities, net	(3,154,611)	14,168,548
Loss on disposition of investment in subsidiaries	(10,759,812)	-
Gain (Loss) on disposal of investment in associates and joint ventures	(9,884,133)	8,556,355
Valuation gain on investment property	1,463,673	3,027,463
Gain on disposal of property and equipment, net	54,545	4,868
Loss on disposal of investment property	(1,806,391)	-
Dividend income	44,661	49,705
Others	765,183	6,455,953
	(8,929,419)	47,974,223

27 Operating expenses

	2018 MNT'000	2017 MNT'000
Personnel expense	38,816,800	35,705,209
Depreciation on property and equipment (note 9)	8,169,202	8,124,483
Amortisation of intangible assets (note 10)	1,457,852	1,480,796
Advertising and public relations	8,268,969	8,504,537
Rental expenses	5,043,253	4,635,169
Professional fees	3,225,927	6,762,240
Technical assistance and foreign bank remittance fees	1,900,673	1,545,020
Write-off of property and equipment	41,279	140,534
Insurance	8,538,285	7,035,315
Business travel expenses	1,558,855	1,406,406
Cash handling	656,322	521,433
Stationary and supplies	1,773,929	1,440,236
Communication	1,479,524	1,359,876
Training expenses	216,447	99,916
Utilities	846,167	824,774
Repairs and maintenance	1,485,390	1,158,944
Security	258,266	152,168
Meals and entertainment	1,143,964	762,026
Transportation	488,953	374,389
IT maintenance	3,271,608	3,378,004
Others(*)	3,137,887	4,518,606
	91,779,552	89,930,081

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

28 Provision for impairment losses

	2018 MNT'000	2017 MNT'000
Provision for impairment losses for loans	129,204,862	114,365,825
Provision for impairment losses for other assets and foreclosed real properties	(115,822)	1,196,206
	129,089,040	115,562,031

29 Leases

The Bank leases some of its branch offices under various lease agreements. Minimum lease commitments that the Bank will pay under the non-cancellable operating lease agreements with initial terms of one year or more at 31 December 2018 and 2017 were as follows:

	2018 MNT'000	2017 MNT'000
Within a year	3,351,622	4,304,763
1 – 5 years	2,790,510	5,555,693
	6,142,132	9,860,456

30 Income tax expense

Recognised in the statements of comprehensive income:

	2018 MNT'000	2017 MNT'000
Income tax expense – current year	322,324	381,360

Reconciliation of effective tax expense:

	2018 MNT'000	2017 MNT'000
Profit before tax	12,962,054	74,141,306
Tax at statutory income tax rate (*1)	2,790,513	18,085,327
Tax effect of non-deductible expense	14,630,756	2,860,828
Tax effect of non-taxable income	(17,402,094)	(20,928,695)
Tax effect of income taxable on special tax rate (*2)	303,149	363,900
	322,324	381,360

(*1) Pursuant to Mongolian Tax Laws, the Bank 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 Bank is required to pay the special tax for certain type of taxable income.

31 Dividends

There were no dividends declared for the years ended 31 December 2018 and 2017.

32 Cash and cash equivalents

At 31 December 2018, BOM requires that a minimum of 10.5% of average customer deposits for MNT, and 12% percent of average customer deposits for foreign currency must be maintained for two weeks with BOM. In December 2017, BOM required that a minimum 12% of average customer deposits for two weeks must be maintained with BOM. In relation to the daily requirement, the Bank also should maintain no less than 50% of the required reserve amount at the end of each day. At 31 December 2018 and 2017, the required reserve amount was MNT 410,810,982 thousand and MNT 368,398,156 thousand, respectively.

	2018 MNT'000	2017 MNT'000
Cash and due from banks (note 4)	1,294,793,495	1,073,933,382
Balances with BOM restricted in use	(410,810,982)	(368,398,156)
Cash and cash equivalents	883,982,513	705,535,226

Details of significant non-cash activities for the years ended 31 December 2018 and 2017 were as follows:

	2018 MNT'000	2017 MNT'000
Valuation loss on available-for-sale financial assets	(2,984,025)	(16,497,110)
Revaluation of property and equipment	(782,428)	4,419,681
Valuation gain (loss) on cash flow hedges	(42,973,435)	57,466,279

33 Segment reporting

Segment information is presented in respect to the Bank's business segments. The primary format, operating segments, is based on the Bank'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 Bank comprises the following main operating segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers. The Bank 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 Bank 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 Bank 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 Bank's trading, corporate finance, borrowing from foreign financial institutions and bond issuance in the international capital market.

- *Treasury* — Undertakes the Bank'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 Bank's funds management activities.

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

33 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2018	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Others	Total
Segment results							
External revenue							
Net interest income (expenses)	281,432,184	25,177,924	(125,473,783)	(190,000,361)	197,207,088	401,330	188,744,382
Net fee and commission income	8,757,553	135,237	28,666,783	72,554	247,061	644,841	38,524,029
Other operating income (loss), net	426,334	-	7,678,057	-	(17,101,568)	67,758	(8,929,419)
Intersegment revenue (expenses)	(216,375,840)	(3,355,977)	220,615,595	197,654,987	(198,497,580)	(41,185)	-
Total segment revenue (expenses)	74,240,231	21,957,184	131,486,652	7,727,180	(18,144,999)	1,072,744	218,338,992
Operating expenses	(1,315,127)	-	(43,718,520)	(2,033,266)	(2,424,857)	(42,287,782)	(91,779,552)
Share of profit of associates and joint venture	-	-	-	-	-	15,491,654	15,491,654
Reversal of (provision for) impairment losses	(129,037,050)	925,059	(1,020,450)	-	(2,560)	45,961	(129,089,040)
Profit (loss) before tax	(56,111,946)	22,882,243	86,747,682	5,693,914	(20,572,416)	(25,677,423)	12,962,054
Income tax expense							(322,324)
Net profit for the year							12,639,730
Non-controlling interests							-
Segment assets	2,476,615,148	196,788,114	730,434,863	-	3,291,641,368	588,310,189	7,283,789,682
Segment liabilities	24,755,757	493,598	3,570,046,751	2,012,978,953	734,253,783	12,480,758	6,355,009,600
Depreciation and amortisation	(15,066)	-	(4,106,983)	(8,992)	(11,116)	(5,484,897)	(9,627,054)
Capital expenditures	33,504	-	11,341,131	9,485	3,910	64,963,317	76,351,347

33 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

34 Significant transactions and balances with related parties

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

• *UB City Bank and its subsidiary*	The Bank's chairman is a member of the board of directors of UB City Bank.
• *Mongolian National Rare Earth Corp LLC ("MNREC")*	The Bank owns 100.0% equity interest in MNREC as at 31 December 2018.
• *Valiant Art LLC*	The Bank's executive officer's immediate relative owns Valiant Art LLC as at 31 December 2018.
• *MIK Holding JSC and its subsidiaries("MIK") (*)*	(*)
• *Mongolian General Leasing LLC and its subsidiary("MGLL") (*)*	(*)
• *National News Corporation and its subsidiaries("NNC") (*)*	(*)
• *JCDecaux LLC (*)*	(*)

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

(*) MIK, MGLL, NNC, and JCDecaux LLC were excluded from the related parties of the Bank upon disposal of TDB Capital LLC. Below are the list of transactions and balances recognised by the Bank prior to such disposal.

Significant transactions and balances with related parties as at and for the years ended 31 December 2018 and 2017 were as follows:

	2018 MNT'000	2017 MNT'000
UB City Bank and its subsidiary (*1)**:**		
For the year ended 31 December		
Interest income	1,433,619	5,139,394
Interest expense	(1,360,972)	(758,866)
Net fee and commission income	-	(188)
As at 31 December		
Deposits and placements with banks and other financial institutions	142	70,660,743
Deposits and placements by banks and other financial institutions	31,208,078	26,452,916
Loans and advances	-	21,028
Accrued interest income	99	35,607
Accrued interest expense	33,204	20,348

34 Significant transactions and balances with related parties (continued)

	2018 MNT'000	2017 MNT'000
MIK (*1):		
For the year ended 31 December		
Interest income	10,051,920	10,676,275
Interest expense	(3,784,676)	(6,124,278)
Fee and commission income	2,946,485	2,447,216
As at 31 December		
Investment securities (note 5)	102,802,800	105,177,000
Deposits and placements by banks and other financial institutions	-	72,113,000
Loans and advances	11,198,053	-
Accrued interest income	1,275,713	1,356,440
Accrued interest expense	-	2,754,264
Borrowings	4,162,660	5,224,622
Receivable	1,193,165	1,028,399
MGLL:		
For the year ended 31 December		
Net fee and commission income	-	300,000
Interest income	244,226	63,707
Interest expense	(375,471)	(281,871)
As at 31 December		
Deposit placements by banks and other financial institutions	17,683,821	10,271,553
Loans and advances	17,566,241	615,773
Accrued interest income	44,696	4,466
Receivables	-	82,500
Accrued interest expense	8,586	11,293
Lease payables	1,424,871	2,591,014
NNC:		
For the year ended 31 December		
Interest expense	(2,937)	(1,985)
As at 31 December		
Deposits placement by a bank	24,193	84,641
Receivable	-	432,000

34 Significant transactions and balances with related parties (continued)

	2018 MNT'000	2017 MNT'000
JCDecaux LLC:		
For the year ended 31 December		
Operating expenses	-	(163,768)
MNREC:		
As at 31 December		
Receivable	562,833	249,774
Valiant Art LLC:		
For the year ended 31 December		
Interest income	25,343	310,442
As at 31 December		
Loans and advances	1,857,352	1,966,763
Accrued interest income	2,245	2,150
Executive officers:		
For the year ended 31 December		
Interest income	748,713	626,577
As at 31 December		
Loans and advances	8,553,338	7,039,486
Accrued interest income	49,889	28,063

(*1) Other transactions

	2018 MNT'000	2017 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 Bank. 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 2018 and 2017 amounted to MNT 8,632,459 thousand and MNT 7,844,245 thousand, respectively.

35 Categories of financial instruments

The carrying amounts of the categories of financial assets and financial liabilities as at 31 December 2018 and 2017 were summarised as follows:

(In MNT'000)

As at 31 December 2018	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	-	-	1,294,793,495	-	-	-	1,294,793,495
Investment securities	-	1,057,740,563	-	701,400,993	-	-	1,759,141,556
Loans and advances	-	-	3,054,731,766	-	-	-	3,054,731,766
Bills purchased under resale agreements	-	-	-	-	-	-	-
Derivative assets	-	-	-	-	-	379,263,246	379,263,246
Other assets(*1)	-	-	242,729,724	-	-	-	242,729,724
	-	1,057,740,563	4,592,254,985	701,400,993	-	379,263,246	6,730,659,787
Financial liabilities							
Deposits from customers	-	-	-	-	3,522,766,676	-	3,522,766,676
Deposits and placements by banks and other financial institutions	-	-	-	-	182,007,964	-	182,007,964
Bills sold under repurchase agreements	-	-	-	-	65,000,000	-	65,000,000
Borrowings	-	-	-	-	975,825,981	-	975,825,981
Debt securities issued	-	-	-	-	1,461,246,758	-	1,461,246,758
Derivative liabilities	1,515,973	-	-	-	-	-	1,515,973
Other liabilities(*2)	-	-	-	-	146,285,787	-	146,285,787
	1,515,973	-	-	-	6,353,133,166	-	6,354,649,139

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

35 Categories of financial instruments (continued)

(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.

35 Categories of financial instruments (continued)

Net gains (losses) by financial instruments categories for the years ended 31 December 2018 and 2017 were as follows:

(In MNT'000)

For the year ended 31 December 2018

	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	167,424,587	-	-	-	-	167,424,587	-
Loans and receivables	413,901,624	-	15,925,893	-	(129,132,654)	300,694,863	-
Available-for-sale financial assets	83,183,508	-	-	(3,154,611)	-	80,028,897	(2,984,025)
Derivatives and spot trading	-	-	-	15,785,496	-	15,785,496	(42,973,435)
Financial liabilities measured at amortised cost	-	(475,765,337)	-	-	-	(475,765,337)	-
	664,509,719	(475,765,337)	15,925,893	12,630,885	(129,132,654)	88,168,506	(45,957,460)

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

36 Financial risk management

(a) Overview

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

- Credit risks
- Liquidity risks
- Market risks

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank’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 Bank’s risk management policies in their specified areas.

The Bank’s risk management policies are established to identify and analyse the risks faced by the Bank, 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 Bank, 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 Bank’s Representative Governing Board (“RGB”) is responsible for monitoring compliance with the Bank’s risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. 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.

36 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank'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 Bank's credit policies and procedures, with credit approval authorities delegated from the Bank'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**	
	2018	**2017**	**2018**	**2017**
Carrying amount	3,054,731,766	2,764,974,569	1,628,940,103	1,910,686,942
Performing	2,313,565,857	2,477,772,798	1,628,940,103	1,910,686,942
In arrears(*)	652,856,982	330,117,241	-	-
Non-performing loans:				
a) Substandard	112,938,733	46,097,859	-	-
b) Doubtful	283,636,783	55,778,226	-	-
c) Loss	128,400,067	123,140,907	-	-
Gross amount	3,491,398,422	3,032,907,031	1,628,940,103	1,910,686,942
Allowance	(436,666,656)	(267,932,462)	-	-
Net carrying amount	3,054,731,766	2,764,974,569	1,628,940,103	1,910,686,942
Letters of credit and guarantees	318,584,981	471,676,191	-	-
Loan and credit card commitments	189,906,239	166,400,776	-	-
Unfunded Syndicated risk participation	45,172,472	70,325,791	-	-
	553,663,692	708,402,758	-	-

(*) Loans included in this classification are those for which contractual interest or principal payments are past due, but the Bank 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 Bank.

36 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.

	2018 MNT'000			**2017 MNT'000**		
	Gross	Net	Fair value of collateral(*1)	Gross	Net	Fair value of collateral(*1)
In arrears	652,856,982	567,267,282	558,357,353	330,117,241	252,004,180	242,316,653
Substandard	112,938,733	74,650,953	74,442,949	46,097,859	32,182,273	32,086,793
Doubtful	283,636,783	115,609,021	115,555,906	55,778,226	16,246,030	16,152,788
Loss(*2)	128,400,067	(69,930)	-	123,140,907	(1,040,231)	-
	1,177,832,565	757,457,326	748,356,208	555,134,233	299,392,252	290,556,234

(*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 unused credit commitments included.

The Bank 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 2018 or 2017.

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 Bank's financial statements.

36 Financial risk management (continued)

(b) Credit risk (continued)

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

	2018 MNT'000	2017 MNT'000
Agriculture	18,613,014	16,092,838
Mining and quarrying	218,956,032	255,823,865
Manufacturing	364,296,240	340,965,750
Petrol import and trade	120,010,895	80,263,373
Trading	754,663,449	602,055,280
Construction	450,143,423	389,100,404
Electricity and thermal energy	21,131,604	1,387,672
Hotel, restaurant and tourism	89,050,885	189,522,217
Financial services(*)	234,335,271	303,438,332
Transportation	59,246,456	41,955,252
Health	32,670,050	16,165,173
Education	28,073,396	4,344,363
Mortgage	261,073,098	247,491,200
Payment card	193,208,906	112,245,734
Saving collateralised	45,998,559	39,676,520
Others	163,260,488	124,446,596
Total	3,054,731,766	2,764,974,569

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

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 Bank. 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 Bank, and the total amount shall not exceed 20% of the capital of the Bank respectively. The criteria for concentration of loan as at 31 December 2018 were as follows:

Description	Suitable ratios	31 December 2018	Violation
The loan and guarantee given to one borrower	<Eq 20%	17.88%	None
The loan and guarantee given to the single related party	<Eq 5%	2.69%	None
Total loans and guarantees given to the related parties	<Eq 20%	5.38%	None

36 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. The Bank's approach to 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 Bank's reputation.

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank'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 Bank 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 Bank maintains a liquidity ratio; calculated as a ratio of a the Bank's liquid assets, including cash on hand, deposits and placements with banks and other financial institutions, balances with BOM and investment securities to the Bank's liquid liabilities; including deposit from customers, deposits and placements from the Banks 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:

	2018	**2017**
As at 31 December	42%	46%

36 Financial risk management (continued)

(c) Liquidity risk (continued)

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

(In MNT'000)

As at 31 December 2018	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	77,762,969	-	-	-	-	77,762,969
Deposits and placements with banks and other financial institutions	259,172,568	209,966	8,368,270	4,330,226	7,754,223	279,835,253
Balances with BOM	937,195,273	-	-	-	-	937,195,273
Investment securities	489,307,190	-	46,984,249	1,010,756,314	212,093,803	1,759,141,556
Loans and advances	222,620,333	181,157,282	507,931,994	1,724,655,888	418,366,269	3,054,731,766
Other assets(*1)	204,521,827	405	1,881,885	414,395,388	1,193,466	621,992,971
	2,190,580,160	181,367,653	565,166,398	3,154,137,816	639,407,761	6,730,659,788
Financial liabilities						
Deposits from customers	2,449,906,662	371,705,704	582,080,988	105,760,828	13,312,494	3,522,766,676
Deposits and placements by banks and other financial institutions	36,454,532	13,214,600	14,728,892	117,609,940	-	182,007,964
Bills sold under repurchase agreements	-	-	-	65,000,000	-	65,000,000
Borrowings	132,393,355	38,247,329	216,183,931	581,172,064	7,829,302	975,825,981
Debt securities issued	-	-	-	1,461,246,758	-	1,461,246,758
Other liabilities(*2)	67,937,715	20,311,910	27,752,646	30,377,939	1,421,550	147,800,760
Issued financial guarantee contracts	318,584,981	-	-	-	-	318,584,981
Unrecognised loan commitments	189,906,239	-	-	-	-	189,906,239
Unfunded Syndicated risk participation	45,172,472	-	-	-	-	45,172,472
	3,240,355,956	443,479,543	840,746,457	2,361,167,529	22,563,346	6,908,312,831
Net financial assets/(liabilities)	(1,049,775,796)	(262,111,890)	(275,580,059)	792,970,287	616,844,415	(177,653,043)

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

36 Financial risk management (continued)

(c) Liquidity risk (continued)

(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
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.

36 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 Bank'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 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 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 localized by the Bank of Mongolia on several areas.

In May 2018, Bank of Mongolia informed banks that it had updated their assessment made in January 2018 to reflect the projected capital need at the end of 2018, based on the non-performing loans found by the AQR and stress test result based on banks' business plans. This changed the amount of new capital need that the banking system had to raise by the end of 2018 to 3.1 percent of GDP. In September 2018, commercial banks booked all additional provisions called for by the AQR, adjusted only by loans that were repaid as IMF stated on the 5th review report of Extended Fund Facility program.

As at the date of approval of these financial statements, the Trade and Development Bank has made all provisions required by the AQR result and raised sufficient fresh capital to address the shortfall mentioned above in line with the capital-raising deadline.

Management of market risks

The Bank 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 Bank'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.

Exposure to interest rate risks

The principal risk to which the Bank'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 Bank's interest rate gap position on its financial assets and liabilities are as follows:

36 Financial risk management (continued)

(d) Market risks (continued)

As at 31 December 2018

(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	-	77,762,969	77,762,969	-	-	-	-	-
Deposits and placements with banks and other financial institutions	2.19%	279,835,253	216,336,102	42,836,466	209,966	8,368,270	4,330,226	7,754,223
Balances with BOM	-	937,195,273	937,195,273	-	-	-	-	-
Investment securities	12.63%	1,759,141,556	147,198,453	468,396,740	-	46,984,249	1,010,756,314	85,805,800
Loans and advances	15.20%	3,054,731,766	-	222,620,333	181,157,282	507,931,994	1,724,655,888	418,366,269
Other assets(*1)	-	621,992,971	621,992,971	-	-	-	-	-
		6,730,659,788	2,000,485,768	733,853,539	181,367,248	563,284,513	2,739,742,428	511,926,292
Financial liabilities								
Deposits from customers	6.52%	3,522,766,676	-	2,449,906,662	371,705,704	582,080,988	105,760,828	13,312,494
Deposits and placements with banks and other financial institutions	4.21%	182,007,964	33,728,693	2,725,839	13,214,600	14,728,892	117,609,940	-
Bills sold under repurchase agreements	7.50%	65,000,000	-	-	-	-	65,000,000	-
Borrowing	6.01%	975,825,981	-	132,393,355	38,247,328	216,183,931	581,172,065	7,829,302
Debt securities issued	9.34%	1,461,246,758	-	-	-	-	1,461,246,758	-
Other liabilities(*2)	-	147,801,760	147,801,760	-	-	-	-	-
		6,354,649,139	181,530,453	2,585,025,856	423,167,632	812,993,811	2,330,789,591	21,141,796
Net financial assets/(liabilities)		376,010,649	1,818,955,315	(1,851,172,317)	(241,800,384)	(249,709,298)	408,952,837	490,784,496

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

36 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	-	-	-	-
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	7.15%	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	-
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.

36 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 Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the Bank'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) is as follows:

	100 bp parallel increase MNT'000	100 bp parallel decrease MNT'000
Sensitivity of projected net interest income		
2018		
At 31 December	(18,333,283)	18,333,283
2017		
At 31 December	(5,475,237)	5,475,237

36 Financial risk management (continued)

(d) Market risks (continued)

Exposure to foreign exchange rate risks

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank'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)

	2018			2017		
	MNT denominated	**Foreign currencies**	**Total**	**MNT denominated**	**Foreign currencies**	**Total**
Financial assets						
Cash on hand	38,314,688	39,448,281	77,762,969	29,654,491	32,986,627	62,641,118
Deposits and placements with banks and other financial instruments	42,625,096	237,210,157	279,835,253	78,660,742	139,963,013	218,623,755
Balances and deposits with the BOM	202,982,243	734,213,030	937,195,273	211,450,889	581,217,620	792,668,509
Investment securities	1,733,928,961	25,212,595	1,759,141,556	2,024,416,596	1,870,111	2,026,286,707
Loan and advances	1,984,893,324	1,069,838,442	3,054,731,766	1,456,036,564	1,308,938,005	2,764,974,569
Bills purchased under resale agreements	-	-	-	11,981,945	-	11,981,945
Other assets (*1)	527,526,414	94,466,557	621,992,971	439,258,809	71,624,325	510,883,134
	4,530,270,726	2,200,389,062	6,730,659,788	4,251,460,036	2,136,599,701	6,388,059,737
Financial liabilities						
Deposits from customers	1,996,652,009	1,526,114,667	3,522,766,676	1,581,674,987	1,488,558,649	3,070,233,636
Deposits and placement by bank and other financial institutions	2,885,332	179,122,632	182,007,964	11,234,388	232,673,203	243,907,591
Bills sold under repurchase agreements	65,000,000	-	65,000,000	129,960,388	-	129,960,388
Borrowings	338,006,949	637,819,032	975,825,981	474,887,313	593,782,131	1,068,669,444
Debt securities issued	160,000,000	1,301,246,758	1,461,246,758	160,000,000	1,184,633,676	1,344,633,676
Other liabilities (*2)	88,500,540	59,301,220	147,801,760	80,065,127	61,895,567	141,960,694
	2,651,044,830	3,703,604,309	6,354,649,139	2,437,822,203	3,561,543,226	5,999,365,429
Off-balance foreign currency exposure, net		1,319,708,331			1,274,120,623	
Net foreign currency exposure		(183,506,915)			(150,822,902)	

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

36 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 2018 and 2017 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
2018		
At 31 December	18,350,692	(18,350,692)
2017		
At 31 December	15,822,902	(15,822,902)

36 Financial risk management (continued)

(e) Capital Management

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

The Bank of Mongolia requires the Bank to maintain a minimum capital adequacy ratio of 14.0% at 31 December 2018 and 2017, 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 2018 and 2017, 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 Bank'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 Bank 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 Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank'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 Bank to increase its share capital to MNT 50 billion by 31 December 2015 and not to pay dividends by 31 December 2018.

The suitable ratios of the Bank's capital adequacy as at 31 December 2018 and 2017, respectively, were as following:

	2018 MNT'000	**2017 MNT'000**
Tier 1 capital	735,459,708	638,055,602
Tier 2 capital	131,985,976	136,612,874
Total Tier 1 and Tier 2 capital	867,445,684	774,668,476
Risk weighted assets	4,443,613,674	4,549,854,176
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	19.52%	17.03%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("TCAR")	16.55%	14.02%

37 Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

The Bank 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 Bank determines fair values for those financial instruments which are not carried at fair value in the 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.

37 Fair values of financial assets and liabilities (continued)

(In MNT'000)	Note	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Financial assets					
Cash on hand	4	77,762,969	77,762,969	62,641,118	62,641,118
Deposits and placements with banks and other financial institutions	4	1,217,030,526	1,217,030,526	1,011,292,264	1,011,292,264
Investment securities	5	1,759,141,556	1,819,877,590	2,026,286,707	2,106,523,564
Loans and advances	7	3,054,731,766	3,106,425,444	2,764,974,569	2,806,470,750
Bills purchased under resale agreements	8	-	-	11,981,945	11,981,945
Other assets(*1)	13	621,992,971	621,992,971	510,883,134	510,883,134
		6,730,659,788	6,843,089,501	6,388,059,737	6,509,792,775
Financial liabilities					
Deposits from customers	15	3,522,766,676	3,505,460,751	3,070,233,636	3,048,074,877
Deposits and placements by banks and other financial institutions	16	182,007,964	182,007,964	243,907,591	243,907,591
Bills sold under repurchase agreements	17	65,000,000	65,000,000	129,960,388	129,960,388
Borrowings	18	975,825,981	975,825,981	1,068,669,444	1,068,669,444
Debt securities issued	19	1,461,246,758	1,501,693,090	1,344,633,676	1,449,178,848
Other liabilities(*2)	20	147,801,760	147,801,760	141,960,694	141,960,694
		6,354,649,139	6,377,789,546	5,999,365,429	6,081,751,842

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

37 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are measured at fair value in the statement of financial position as at 31 December 2018 and 2017 were as follows:

(In MNT'000)

	2018			
	Level 1	**Level 2**(*2)	**Level 3**(*3)	**Total**
Investment securities (AFS)(*1)	51,388,358	571,199,540	-	622,587,898
Derivative assets	-	-	379,263,246	379,263,246
	51,388,358	571,199,540	379,263,246	1,001,851,144
Derivative liabilities	-	1,515,973	-	1,515,973

(*1) As at 31 December 2018, repossessed assets and unquoted equity securities at cost amounting to MNT 75,260,890 thousand and MNT 3,552,205 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 2018.

(*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 2,915.30 as at 31 December 2018.

A ten percent strengthening or weakening of input unobservable in markets as at 31 December 2018 would have increased or decreased other comprehensive income by MNT 121,170,478 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 349,865,000 thousand and MNT 29,398,246 thousand for the year ended 31 December 2018.

There was no transfer between level 3 and other levels for the year ended 31 December 2018.

37 Fair values of financial assets and liabilities (continued)

(In MNT'000)

	2017			
	Level 1	**Level 2**(*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.

37 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are not measured at fair value in the statement of financial position as at 31 December 2018 and 2017 were as follows:

(In MNT'000)

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash on hand	77,762,969	-	-	77,762,969
Deposits and placements with banks and other financial institutions	-	-	1,217,030,526	1,217,030,526
Investment securities(HTM)	-	1,118,476,597	-	1,118,476,597
Loans and advances	-	-	3,106,425,444	3,106,425,444
Other assets(*1)	-	-	242,729,724	242,729,724
	77,762,969	1,118,476,597	4,566,185,694	5,762,425,260
Deposits from customers	-	-	3,505,460,751	3,505,460,751
Deposits and placements by banks and other financial institutions	-	-	182,007,964	182,007,964
Bills sold under repurchase agreements	-	-	65,000,000	65,000,000
Borrowings	-	-	975,825,981	975,825,981
Debt securities issued	-	1,501,693,090	-	1,501,693,090
Other liabilities(*2)	-	-	146,285,788	146,285,788
	-	1,501,693,090	4,874,580,484	6,376,273,574

(*1) Prepayments, precious metal, inventory supplies, derivative assets and spot receivables were excluded.

(*2) Unearned income, derivative liabilities and spot payables were excluded.

37 Fair values of financial assets and liabilities (continued)

(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	-	-	2,806,470,750	2,806,470,750
Bills purchased under resale 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.

38 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 2018 and 2017 were as follows:

(In MNT'000)

	2018					
				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)	-	-	-	-	-	-
	-	-	-	-	-	-
Financial liabilities						
Bills sold under repurchase agreements(*1)	65,000,000	-	65,000,000	65,000,000	-	-
	65,000,000	-	65,000,000	65,000,000	-	-

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

38 Offsetting financial assets and liabilities (continued)

(In MNT'000)

	2017					
	Financial assets and liabilities recognised	Offsetting financial assets and liabilities recognised	Financial assets and liabilities recognised after offset	Amount not offsetting in the statements of financial position		Total
				Financial instruments	Cash collateral received	
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.

39 Commitment and contingent liabilities

Financial guarantees and letters of credit

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

The Bank 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 Bank 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	**2018 MNT'000**	**2017 MNT'000**
Letters of credit and guarantees	318,584,981	471,676,191
Loan and credit card commitments	189,906,239	166,400,776
Unfunded Syndicated risk participation	45,172,472	70,325,791

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.

Other Matter

On 10 February 2017, the Parliament of Mongolia issued a resolution 23 with respect to the acquisition of 49% stake in Erdenet Mining Corporation LLC (EMC) by Mongolian Copper Corporation LLC (MCC), where the Bank provided financing to MCC for its 49% stake. 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 in EMC to the state ownership and appoint all board members of EMC from GOM 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 ownership rights and interests related to (1) illegally transferred MCC's 49 % stake holding in to state ownership, (2) illegally revised charter of EMC.

Trial, Appellate and the 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. Following the Supreme court judgment, the GoM directed SPMCD and the GDIPSR to reinstate MCC's 49% stake in EMC which effected on 28 December 2017.

On 4 January 2018, the GoM issued another resolution demanding that MCC's 49% stake in EMC be transferred to the State Property. In exchange, the GoM determined to offset the outstanding loans extended to the Bank by the GoM pursuant to the Loan and Collateral agreement between the GoM (including Development Bank of Mongolia) and the Bank at the amount of costs paid by MCC when they acquired the 49% interest in EMC. 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.

39 Commitment and contingent liabilities (continued)

Other Matter (continued)

On 19 July 2018, the Appellate court of the Administrative case also upheld the judgment. On 19 September 2018, the Supreme Court of Mongolia heard the case and upheld the decision of its lower court. However SPMCD did not transfer the stake to MCC and has been failing to honor the Supreme Court's judgment rendered on 19 September 2018.

Despite of the Supreme Court of Mongolia's ruling in 2018, the GoM released previous GoM meeting minutes made in 2016 regarding EMC matter, in March 2019, and has made allegations against the Bank's Management, that the financing for MCC to acquire a 49% stake in EMC is illegal. On 6 March 2019, the GoM issued a resolution to set an emergency regime for six months at Erdenet Mining Corporation based on the Law on Government and other related laws. During the period of emergency regime, there will not be interruptions in operations of EMC etc. and financial documents will be inspected only. The Prime Minister set up a working group to implement the resolution.

The GoM has restructured EMC as a 100% State Owned Enterprise (SOE) simply through a government decision. And the Prosecutors Office returned the case file due to insufficient evidences to make a case in court against the Bank's Management and others.

The allegations of the GoM include loans to Kanetic LLC (US$68 million), United Energy System LLC (US$ 70 million) and MCC (US$75 million), payments (presented as Construction in Progress in the financial statements) to Riverstone Properties LLC (US$70 million) at the time of purchasing EMC stakes. The loans to Kanetic LLC of US$ 68 million was repaid in full and the bank extended to new loans of US$28.0 million and MNT 91.1 billion in 2017. As of 31 December 2018, the loans to Kanetic LLC and loans of US$62.8 million to MCC and US$90 million of construction-in-progress for which related payments have been made to Riverstone Properties LLC are recorded in the statement of financial position.

The Bank is asserting that those transactions were not illegal finances as per the Supreme Court's ruling, and believes there are no impacts on the recoverability of loans and the construction progress by Riverstone Properties LLC (Riverstone), in spite of the allegations by the GoM.

However, the Bank recognized, from Riverstone's audit report, that some of the fund which was paid by the Bank for construction of new head office building, was paid to MCC by Riverstone. The Bank believes that there is no legal basis to conclude that lending its advance payment to MCC by Riverstone is violating relevant laws, and if the Riverstone has failed to perform their obligation within the period stipulated in the contract, the Bank is entitled to demand compensation for caused damages due to contract renouncing in accordance with the Civil code of Mongolia. The Bank has been cooperating with Riverstone and will continue to monitor the construction progress.

As the GoM's inspection on financial documents under an emergency regime for 6 months at EMC, is currently in progress, the ultimate outcome of the matter cannot presently be determined. Accordingly, no provision has been recorded in the financial statements

40 Interests in unconsolidated structured entities

Nature of risk associated with interests in unconsolidated structured entities as 31 December 2018 and 2017 are as follows:

Type	Nature and purpose	Financing	Total Assets 2018 MNT'000	Total Assets 2017 MNT'000
Securitisation vehicles for loans and advances	To generate: ▪ funding for the Bank's lending activities. ▪ fees for loan servicing. These vehicles are financed through the issue of notes to investors.	Issue of RMBS notes	2,868,123,771	2,559,588,842

Exposure to risk relating to interests in unconsolidated structured entities as at 31 December 2018 and 2017 are as follows:

	2018 MNT'000	2017 MNT'000
Investment securities		
Securitisation vehicles for loans and advances	102,802,800	105,177,000