TRADE & DEVELOPMENT BANK

ЖИЛИЙН ТАЙЛАН

ANNUAL REPORT 2015

Your financial gateway to Mongolia

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MESSAGE FROM THE PRESIDENT

Dear Clients, Business Partners, Stakeholders and Friends,

The Year 2015, which marked the 25th anniversary of TDB's founding, was a challenging on as the Mongolia's economic growth slowed to the lowest rate in seven years. The results reviewed in this report will show loan growth was relatively flat and the bank experienced an increase in non- performing loans caused largely by the continued softness in commodity prices. Decreased consumer demand saw lower levels of imports and the wholesale and retail sectors experienced some stress. Because of these factors, TDB's operating results were lower than the previous year.

Despite the challenges, TDB's overall standing remained strong, with its continued position as the largest bank in terms of assets as well as the leader in corporate lending, trade finance, foreign remittances, foreign exchange, government bond and gold bullion trading. In addition, TDB remained the most efficient bank with the highest level of income per employee and the lowest cost to income ratio.

We are proud of several accomplishments and milestones recorded during the year. Of particular note is the USD500 million 144A/RegS five year Global Bond issue in May. This represented the first time TDB was able to seek investors in the all-important US market, where almost half the issue was placed, and the first time a five year tenor was obtained. A significant factor in the success of the bond issue was the Government of Mongolia guarantee, available to TDB due to the bank's significant holdings of local currency government bonds. This helped the bank obtain a more favorable interest rate on the debt issue. By utilizing the swap program of the Bank of Mongolia designed to attract funds to boost the country's foreign exchange reserves, TDB exchanged the bond proceeds for local currency, and has since been able to offer highly sought after longer term local currency loans to its esteemed clients. This milestone bond transaction received the prestigious Finance Asia award as the Best High Yield Bond of 2015.

During the year, as the bank worked hard to provide more attractive trade finance term for its clients , the bank successfully expanded its relationships with top international financial institutions. For instance, TDB has signed a financing agreement for RUB 1.3 billion with Export and Import Bank of Russia, a USD 60 million agreement with China Development Bank, as well as Memoranda of Understanding with CSOB and Hungarian Trade House to finance trade from the Czech Republic and Hungary.

The year ahead poses challenges, but the noteworthy signing of the USD 4.4 billion loan agreement between Oyu Tolgoi and a consortium of major international banks in December means that much needed investment in Mongolia will increase and this gives us confidence that Mongolia's economic growth rate will again start to increase. We look forward to working with all our clients and stakeholders as we move together towards prosperity.

President

Randolph S.KOPPA

MESSAGE FROM CEO

Dear Customers, Shareholders, Business partners and Business associates,

Since its establishment on October 19, 1990, Trade and Development Bank has been leading banking industry with its financial capacities and reliable services and embracing its 25th anniversary with full of success and achievements.

I am delighted to present the TDB's financial report based on our performance for the year of 2015 to our customers who have been with us for 25 years and co-created whole achievements together.

For the reporting period, TDB has aimed to improve the quality of banking products and services in line with international standards reflecting rapidly increasing needs and demands of our customers while gaining customers' trust and respect, to prove our leadership in banking sector, and to conclude innovation, improvement and renovation into our all levels of banking operation within the framework of "Year of Innovation".

Regardless of some significant changes has been made in Mongolian economy and several impacts including the decrease in foreign direct investment, the price decline of main export mining commodities, the shrink in domestic demand and the deficit increase of the country budget, and a deteriorated economy, TDB has operated efficiently taking into account the demands and needs of our customers whilst providing reliable operation supported by sound policy.

TDB has boosted the reputation of Mongolian commercial bank on international market and proved its robust position to international investor base whilst leading the market with its total assets, and maintaining cost-efficienct operations through 2015. Also, TDB has provided many advanced products and services to our customers. For instance, the insurance brokerage service has been distributed to costumers through all our branches with the support of leading insurance companies. Moreover, TDB has successfully launched Custodian service, one of the main service packages of international capital markets, into the Mongolian capital market for the first time which has shown expansion and diversification of domestic financial sector.

Within the reporting period, despite non-performing loan of banking sector having increased, TDB has granted loans to corporate and individual customers under prudent requirements and criterias in order to prevent risk of overall loan portfolio.

As for the year 2016, TDB is aiming to monitor its overall operation, to improve the quality of its products and services, and to implement proper strategic policy into its operation under the framework of "Year of Innovation". I would like to express my sincere gratitude to all employees of TDB and to entrusted customers from myself and behalf TDB, a multi-functional and leading bank of Mongolia.

I believe the year 2016 will be another year with full of opportunities and remarkable achievements.

With sincere regards,

Chief Executive Officer

Balbar MEDREE

FINANCIAL HIGHLIGHTS

MNT Billion

Assets	2012	2013	2014	2015
Cash and cash equivalents	444.8	1,090.2	1,054.7	695.0
Investment securities	456.8	885.1	908.7	1,412.5
Investment in associates and joint ventures	2.4	10.4	14.5	46.8
Loans and advances	1,533.3	2,530.6	2,777.2	2,645.0
Reverse repurchase agreements	-	-	-	99.8
Subordinated loans	7.0	7.0	4.0	4.0
Property and equipment	131.6	153.3	298.0	204.9
Intangible assets	0.6	4.3	4.5	1.4
Investment property	-	33.4	33.7	99.8
Foreclosed properties	0.2	6.1	1.0	1.4
Prepaid tax	-	-	5.7	-
Other assets	123.9	403.7	311.0	333.5
Total assets	**2,700.5**	**5,124.1**	**5,413.2**	**5,544.1**
Liabilities				
Deposits from customers	1,402.3	2,139.7	2,533.6	2,210.0
Deposits and placements of banks and other financial institutions	36.5	172.1	120.0	112.8
Bills sold under repurchase agreements	1.5	372.7	-	99.8
Borrowings	233.0	1,157.1	1,107.3	1,012.4
Current tax payables	2.5	7.6	0.4	4.4
Debt securities issued	600.5	460.6	741.4	1,175.9
Other liabilities	128.8	379.2	279.2	231.0
Subordinated borrowings	55.5	66.0	75.4	29.9
Total liabilities	**2,460.6**	**4,755.0**	**4,857.2**	**4,876.2**
Shareholder's equity				
Share capital	33.2	33.2	33.2	69.3
Revaluation reserves	44.4	32.7	126.2	151.4
Retained earnings	162.3	301.6	395.0	445.2
Total shareholder's equity	239.9	367.5	554.4	665.9
Non-controlling interests	-	1.6	1.7	2.0
Total liabilities and shareholders' equity	**2,700.5**	**5,124.1**	**5,413.2**	**5,544.1**

CONSOLIDATED INCOME STATEMENT

MNT Billion

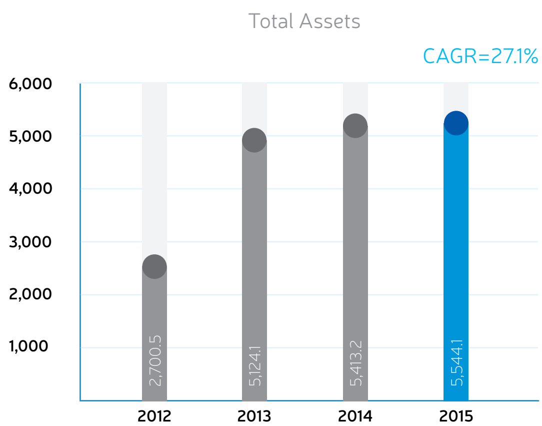
	2012	2013	2014	2015
Interest income	213.3	321.4	444.7	532.9
Interest expense	(137.4)	(200.7)	(296.5)	(358.5)
Net interest income	**75.9**	**120.7**	**148.2**	**174.3**
Net fee and commission income	16.4	21.5	27.4	29.4
Other operating income (expense)	14.3	68.7	30.9	(15.2)
Net non-interest income	**30.7**	**90.2**	**58.2**	**14.2**
Operating income	**106.6**	**211.0**	**206.4**	**188.6**
Operating expenses	(32.9)	(44.5)	(68.8)	(91.4)
Share of profit (loss) of an associate	(2.3)	0.2	1.1	12.6
Allowance for impairment losses	6.6	(8.3)	(44.7)	(47.0)
Profit before tax	**77.9**	**158.4**	**94.0**	**62.7**
Corporate income tax	(14.8)	(19.2)	(0.5)	(1.3)
Net profit for the year	**63.1**	**139.3**	**93.5**	**61.5**

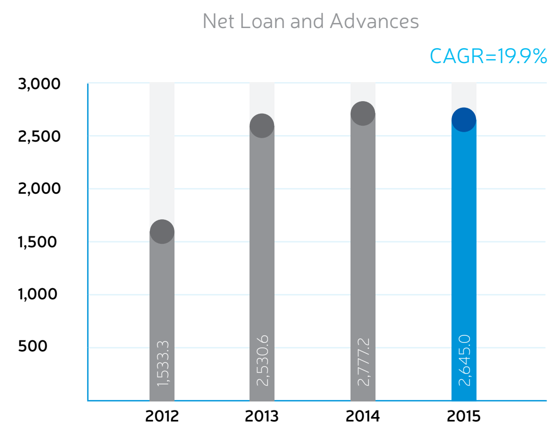
Ratios	2012	2013	2014	2015
Profitability:				
Cost Income Ratio	30.9%	21.1%	33.3%	48.5%
Net Interest Margin	4.4%	4.4%	3.9%	4.1%
ROE	26.3%	37.9%	16.9%	9.2%
ROA	2.3%	2.7%	1.7%	1.1%
Growth rate				
Asset growth	27.3%	89.7%	5.6%	2.4%
Loan growth	36.5%	65.0%	9.7%	-4.8%
Deposit growth	9.8%	52.6%	18.4%	-12.8%
Capital growth	72.1%	53.2%	50.9%	20.1%
Asset quality:				
Loans to deposit ratio	110.3%	119.1%	111.9%	124.1%
Loans to asset ratio	56.8%	49.4%	51.3%	47.7%
Liquidity Ratio	37.2%	42.3%	41.3%	44.4%
Capital:				
Tier 1 Capital Adequacy Ratio	10.0%	11.6%	13.0%	12.3%
Capital Adequacy Ratio	15.1%	15.1%	19.2%	16.7%

As at 31 December 2015, total asset reached MNT 5,444.1 billion, an increase of MNT 130.9 billion, or 2.4 percent compared to the end of 2014. Total liabilities reached MNT 4,876.2 billion, an increase of 0.4 percent compared to the previous year.

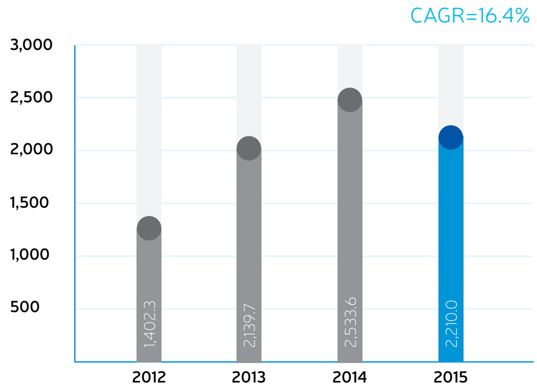
As for the equity, share capital amounted to MNT 69.3 billion, an increase of MNT 36.1 billion compared to the end of 2014. Whereas, revaluation reserves and retained earnings increased by MNT 25.2 billion, MNT 50.2 billion and reached MNT 151.4 billion, MNT 445.2 billion respectively.

As at 31 December 2015, interest income reached MNT 532.9 billion, an increase of 19.8 percent, while, interest expense reached MNT 358.5 billion, an increase of 20.9 percent. An operational income reached MNT 188.6 billion, and net profit resulted MNT 61.5 billion in the reporting year.

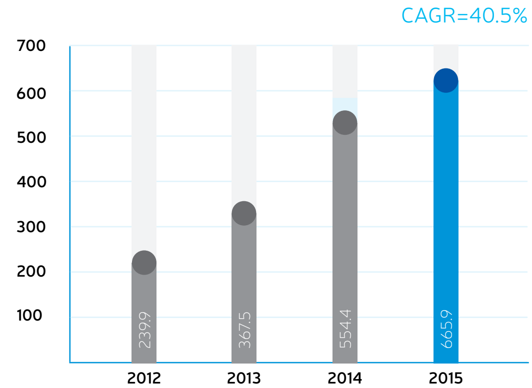




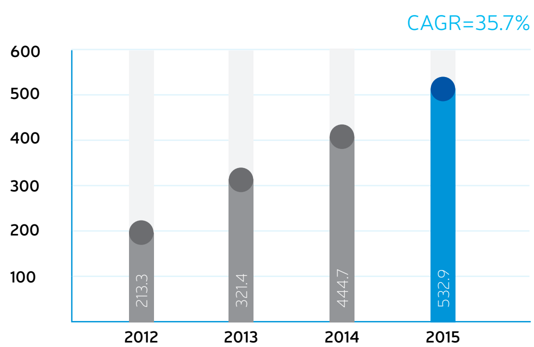
Deposits from customers



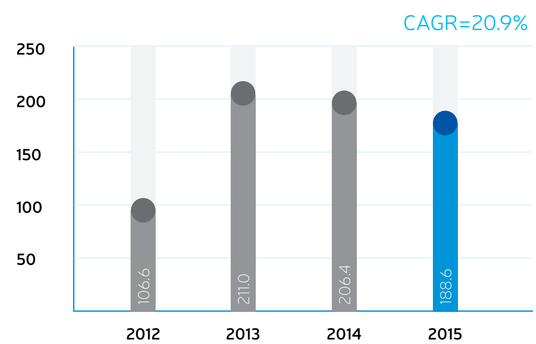
Total Equity



Interest income



Operating income



TRADE AND DEVELOPMENT BANK IN 2015

HIGHLIGHTS AND KEY EVENTS

TDB has successfully issued USD 500 million bond

Trade and Development Bank of Mongolia, the first Mongolian entity issued bonds internationally, has successfully issued Government Guaranteed Medium Term Notes on the international capital market, with an amount of USD 500 million. The issuance was fifth time TDB issued bonds on the international market.

Has introduced full range of Custodian Service for the first time in Mongolia

Trade and Development Bank of Mongolia, for the first time in Mongolian capital market, has introduced the custodian service in full range, which is the inseparable integral part of international capital market, connected with holding securities for safekeeping, verifying the title of ownership, account administration and transaction settlements.

Opening ceremony of new office building

For the 25th anniversary of TDB, we have organized the opening ceremony of our new 14 story office building, built in line with international standards and consistent with modern office trend. The central branch of TDB is settled in our new building, to provide "Customer-Centered" banking services, the new banking service culture.

Celebrated “Financial Education Days” with secondary school students

TDB has conducted a financial education training, under a motto “Today’s Saving - Tomorrow’s Future”, to over 800 students of 20 secondary schools in Ulaanbaatar and in rural areas. During the 80 minutes training, discussions took place on the interesting topics such as how do commercial banks work, savings, smart spending and the participant students were rewarded with TDB’s gift.

Arranged a replacement of burned USD 40,000 banknotes of a customer

TDB has arranged a replacement of burned USD 40,000 banknotes of Ms. Chantsaldulam, assisted her to receive new banknotes, in full amount. The assistance of TDB was much appreciated by the customer and received appreciation from thousands, on social network.

Joined “Let’s Give Life” goodwill campaign

TDB has organized “Let’s Give Life” goodwill campaign among the employees of TDB to donate blood, in cooperation with “National Blood Transfusion Research Center”. Over 150 employees of TDB have joined the campaign and donated blood for making contribution on goodwill, and promoting humanity to the public.

Joined “1000 Tugriks” charity campaign

TDB employees have joined the “1000 Tugriks” goodwill campaign initiated by “25th Channel TV”. Total donation of MNT 4.3 million was raised by the employees of TDB and presented the funds to the “25th Channel TV”.

TDB CONTINUES TO IMPLEMENT SUSTAINABLE FINANCE PRINCIPLES

Introduced two "Interactive assisting ATMs"

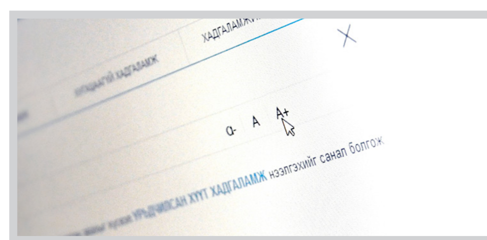
Two of TDB's ATMs are now able to speak. The ATMs are dedicated for the service of elders, illiterate and visually impaired customers. When customers plug their own headset to the headset jack on the machine, the ATM will start to provide interactive assistance. These 24 hours open ATMs are located at "Jobi 72" shopping center in Bayanzurkh District, and at the Monnis Tower in Sukhbaatar district.

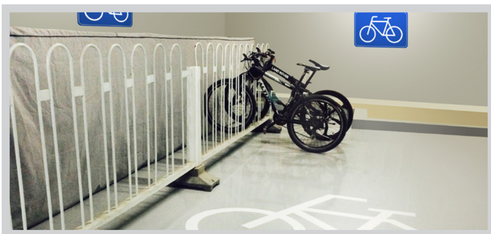
Customers in wheelchair will have specialty access to the building

We are planning and implementing to make every new branch and settlement center of TDB to be accessible by customers in wheelchair, and equip the branches with priority parking, road and entrance for the customers in wheelchairs. The central branch located at the head office of TDB, 5 other branches in Ulaanbaatar and 3 branches in rural areas are now equipped with entrance, exit for wheelchair users.

Improved our web page for the visually impaired customers

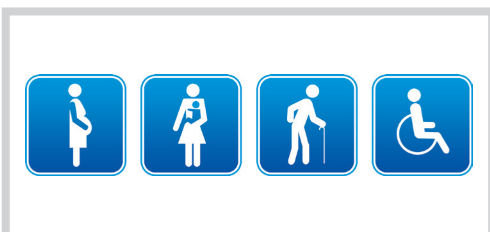
With the renewal of the TDB's official web page www.tdbm.mn, visually impaired people are now able to get all necessary information from the website. Customers are able to resize the font size of text on the web site. And visually impaired people will be able to listen to the information with a special application.





Bicycle Parking

Under the "Setting good example" principle of Sustainable Finance Initiative, we have installed a charge-free bicycle parking at the head office parking lot in order to appeal our employees and customers to a healthy, active lifestyle. As a result, customers who ride bicycles for well-being will receive banking services promptly. Also, it contributes to the reduction of the air pollution and traffic of the city as employees at the head office ride bicycles to work.



Pregnant women and customers with an infant child will be served without queuing

TDB implements "Increasing banking services accessibility" principle in our operations, one of eight principles of Sustainable Finance Initiative, jointly implemented by Mongolian commercial banks. Every branch and settlement center of TDB started serving pregnant women, customers with infant child with age between 0 to 2, elders and people with disability, without queue on a separate window.

AWARDS

"GLOBAL GROWTH COMPANY"

The World Economic Forum

"BEST HIGH YIELD BOND"

Finance Asia Magazine

"BEST BANK IN MONGOLIA"

For the 2nd consecutive year Euromoney Magazine

2013, 2015

"BEST COMMERCIAL BANK IN MONGOLIA"

For the 4th consecutive year Global Banking & Finance Review

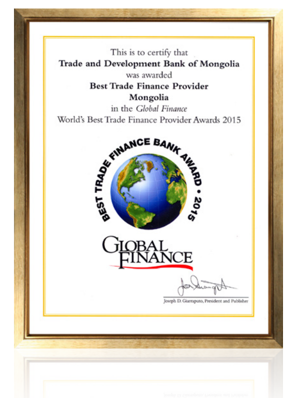
2012, 2013, 2014, 2015

BANK WITH BUSINESS EXCELLENCE

"BEST TRADE FINANCE BANK IN MONGOLIA"

For the 5th consecutive year Global Trade Review

2011, 2012, 2013, 2014, 2015



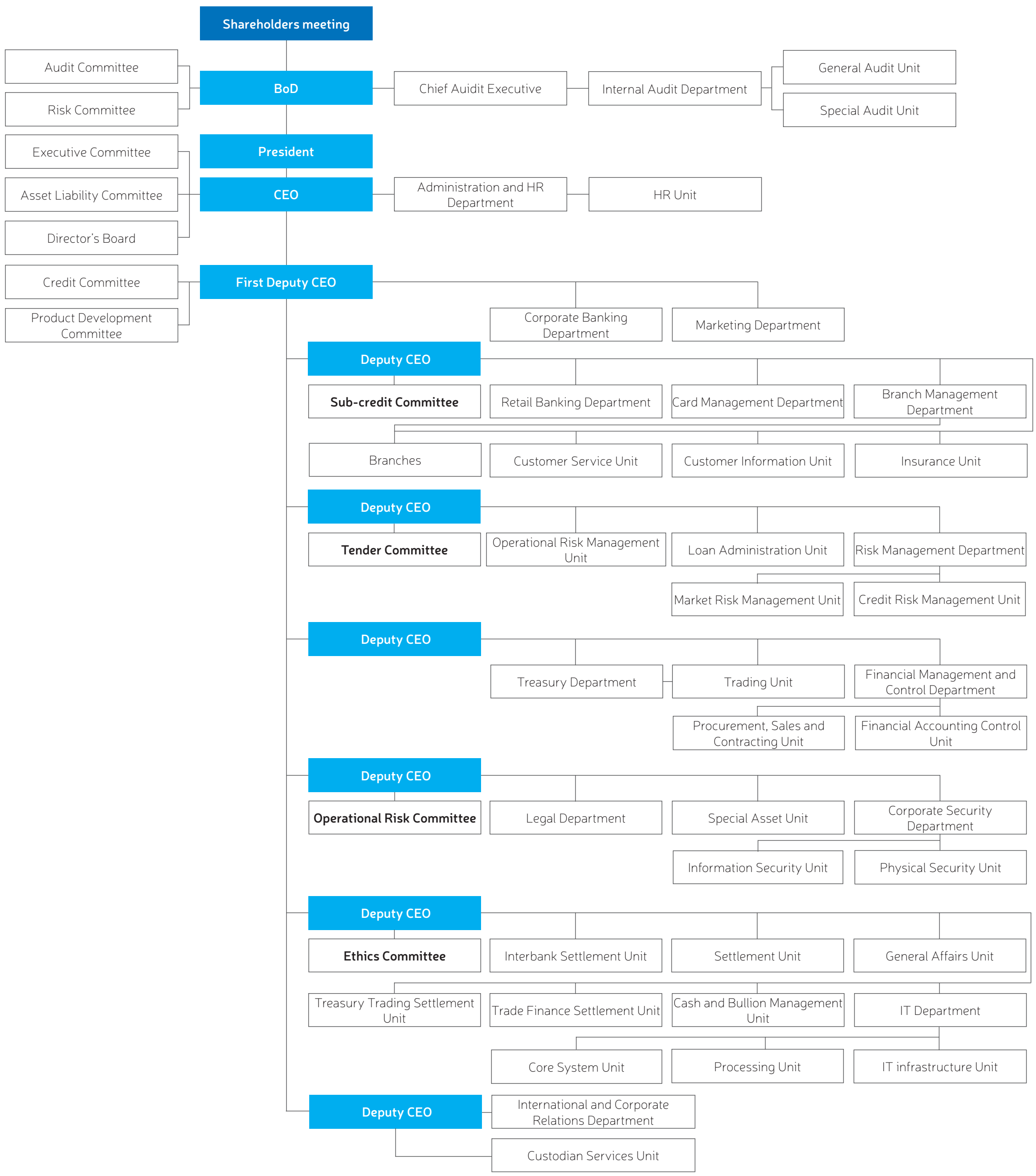
"BEST TRADE FINANCE PROVIDER MONGOLIA"

Global Finance Magazine

"LEADING PARTNER BANK IN MONGOLIA"

Asian Development Bank

ORGANIZATIONAL CHART



CORPORATE GOVERNANCE

Excellence in corporate governance is a fundamental aspect of corporate sustainability and TDB supports a comprehensive governance framework in line with best international practices. Our governance structure determines the fundamental relations among the members of Board of Directors, management, shareholders and other stakeholders. It defines the framework in which ethical values are established and the context in which corporate strategies and objectives are set. Currently, TDB is working in accordance to the plan for the RGB to operate in line with the international best practice by adding two new independent board members to the Representative Governing Board and to stabilize the operations of the RGB committees.

Representative Governing Board

Our board operates and requires at all levels, impeccable values, honesty and openness. Through its processes, it achieves transparent, open governance and communications under all circumstances addressed. The board provides with vision and strategy to direct and support banking operations.

Management Team

The management team of TDB consists of competent managers in banking and finance. Prudent corporate governance structure, our governance policies and practices support the ability of directors to supervise management and enhance long term shareholder value.

Employees

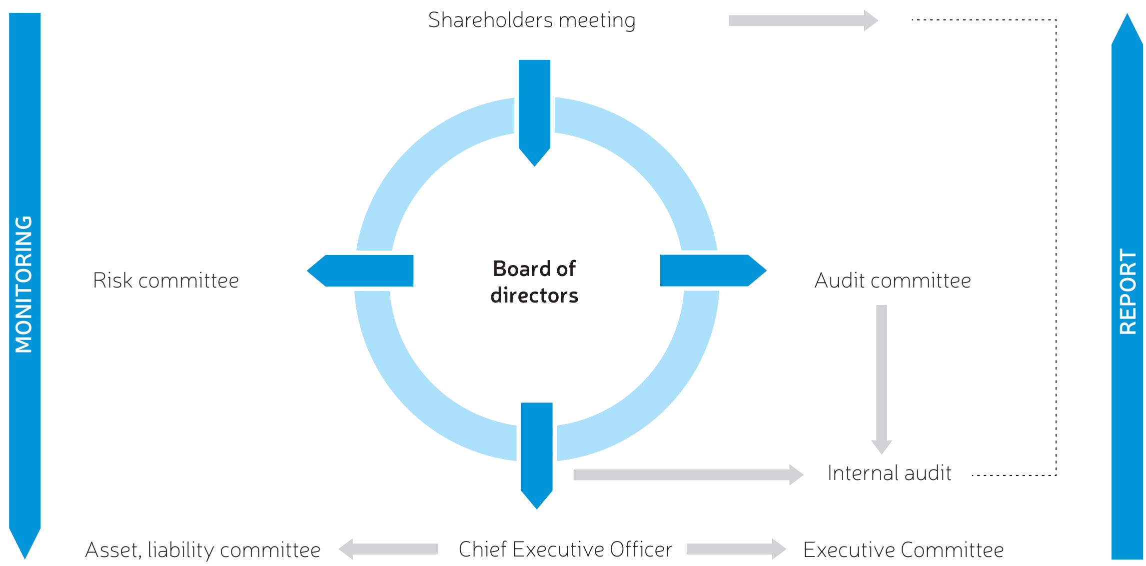
TDB is committed to providing faithful, safe, challenging and rewarding work, recognizing the importance of attracting and retaining high quality staff and consequently, being in a position to excel in customer service.

Us

TDB is strongly committed to maintaining an ethical workspace, complying with legal and ethical responsibilities.

As we work to serve our customers, clients, and communities and generate returns for our shareholders, we understand that success is only meaningful when it is achieved with right way.

CORPORATE GOVERNANCE STRUCTURE



Board of Directors

Chairman
Mr.Doljin ERDENEBILEG

Members
Mr.Zuunai SHAGDARSUREN
Mr.Randolph KOPPA
Ms.Tamir TSOLMON
Mr.Chuluunbaatar ENKHBOLD

Corporate secretary
Ms.Dashzegve DAVAAJAV

MANAGEMENT TEAM

Mr. Randolph KOPPA
President

Mr. Balbar MEDREE
Chief Executive Officer

Mr. Onon ORKHON
First Deputy CEO

Ms. Palamdorj GANTUUL
Chief Auditor

Mr. Dambiijav KHURELBAATAR
Deputy CEO

Ms. Demchigjav OTGONBILEG
Deputy CEO

Mr. Sanjaasuren ORGODOL
Deputy CEO

Mr. Lkhagvasuren SORONZONBOLD
Deputy CEO

CORPORATE BANKING BUSINESS ACTIVITIES

As a market leader in corporate banking business, TDB has been supporting not only major economic sectors of mining, construction, industry and trade, but also such sectors identifying country development including telecommunications, manufacturing, health care, education, energy, tourism and agriculture with advanced banking products and services and fast, reliable financing instruments.

Due to the decrease in foreign direct investment and the price decline of main export mining commodities, the year of 2015 was a year of slowed domestic production and decreased its trade turnover. Even in this economic situation TDB has successfully worked and maintained its leading position on the market without reducing its large corporate clients loan portfolio.

Based on current economic conditions, tight bank's lending policy and criteria, appreciation of foreign currencies, and the availability of sources, total disbursed loan amount was lower in 2015.

Eventhough the disbursement of the loans were lower in the reporting period compared to the previous year, due to the increase in foreign exchange rate, the outstanding amount of the large loans appear higher than the previous year's.

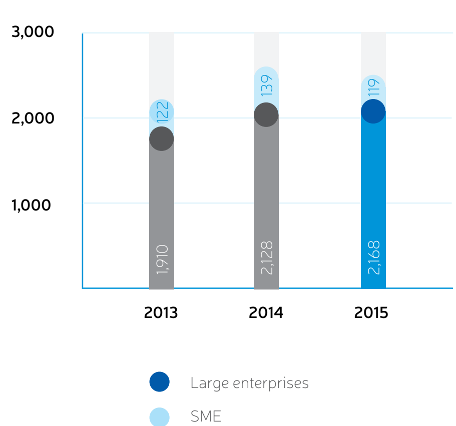
Reflecting on the current circumstances of the economy, many borrowers decided to temporarily hold or to postpone new investments, such as constructing and purchasing of new buildings. TDB advised many customers to postpone risky investment and financing applications with large amounts until the conditions will improve.

Considering the current economic situation and the availability of internal funding source, TDB has worked to supply the customers' trade financing needs with low-interest, long-term financing from international banks and financial institutions. At the current moment where business enterprises are struggling with operational stability and financial liquidity, a financing with low-interest and long-term from external sources significantly reduces the burden of loan repayment and interest payment of customers.

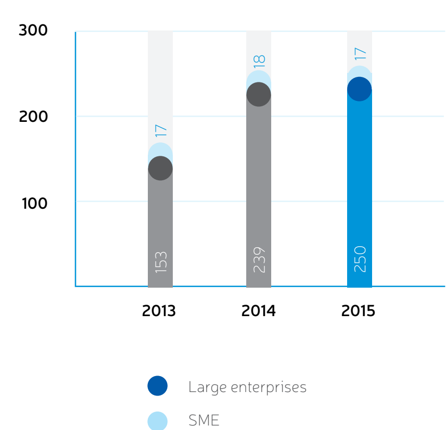
In 2015, within the framework of financing customers' needs of low-interest, long-term fundings, TDB has successfully implemented and cooperated with 30 domestic and international banks and financial instititutions including Bank of Mongolia, Development Bank of Mongolia, SME fund of Mongolia, JICA, KFW, ING Bank, Export-Import Bank of Korea and Export-Import Bank of the Republic of China and has successfully utilized 44 on-lending programs and trade finance facilities with total drawdown of loans reaching MNT 1,012.3 billion.

TDB was selected as a participating financial institution in a number of on-lending programs including "Credit project to support Cashmere sector - MNT 100 billion", "Credit project to support Industry sector - MNT 300 billion" "Credit projects of MNT 125 billion and MNT 150 billion under ASEM" arranged by Development Bank of Mongolia, "Credit project of MNT 70 billion" arranged by SME Fund of Mongolia, "Gold advance funding programm - MNT 256 billion" arranged by Bank of Mongolia, "Concessional loan program – JPY 8 billion" arranged by JICA, and "Trade Loan Program- USD 25 million" arranged by OFID and has successfully implemented the programs.

Outstanding loans by large corporates and SMEs
/MNT billion/



Loan interest revenue by large corporates and SMEs
/MNT billion/



RETAIL BANKING BUSINESS ACTIVITIES

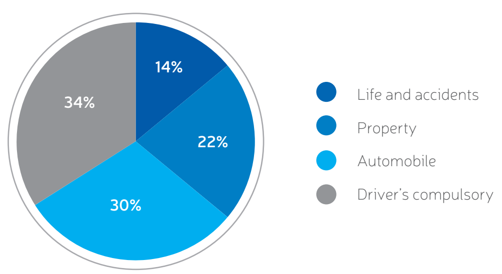
TDB works towards improving quality and benefits of retail banking financial products and services by introducing new competitive and leading products and services that meet individual clients' needs, and to offer these products and services through branches, settlement centers and online banking platform of TDB. Hereby launch key achievements of the retail banking business in the reporting period.

Introduced insurance brokerage services

In the reporting period, TDB introduced insurance brokerage services and started providing insurance services to customers through our branches and settlement centers. This significant activity is being implemented in cooperation with prominent insurance companies. Credit risk insurance has been offered in cooperation with MIG Daatgal LLC, Soyombo Daatgal LLC, Practical Daatgal LLC and voluntary insurance products have been offered in cooperation with Mongol Daatgal LLC, in addition to above three insurers.

Voluntary insurance products include accident insurance package, property insurance package, automobile insurance, driver's compulsory insurance packages are being offered. Below chart illustrates the sales of insurance products.

Sales of insurance products
/by percentage/



Introduced Turkish Lira for the first time in Mongolia

Leveraging on its close cooperation with international financial institutions and vast experience in the international relations, TDB has introduced Turkish Lira to the settlement system. Customers of TDB now can open Turkish Lira current account, execute cash and non-cash transactions and international remittances. With the introduction of Turkish Lira, TDB is offering to its clients current account and services in 16 different currencies, which is the widest range of currencies offered in Mongolia.

"Junior Customer" event organized for the 3rd consecutive year

An annual event "Junior Customer" for the 18 year old customers has been organized for the third consecutive year with the cooperation of Union Pay International. The event coincided with the celebration of the 25th anniversary of TDB, and with the opening of new TDB office building. Also, on the "Children's Day", TDB organized an event "For the future of healthy Mongolian children" on which day we gifted our young customers with a voucher for 50% discount of the Ballet and Football courses, opened saving accounts for free and offered registration fee free "outstanding payment order" service for a whole year.

Celebrated World Savings Day

TDB has celebrated "World Savings Day" for the second year. The event with a motto "Start saving now" was organized and encouraged our customers to save from their income regularly. For the occasion, TDB offered to open saving accounts for free, and offered to registration fee free "outstanding payment order" service for a whole year and led our customer to a bright future with growing savings.

Housing Mortgage loan with 8% (±1%) percent interest rate

In 2015, within the "Housing Mortgage Loan Program with 8% (±1) percent of Annual Interest Rate" jointly implemented by Government of Mongolia and Bank of Mongolia in order to support "a stable financial system of housing mortgage", TDB has extended mortgage loans in total amount of MNT 167.3 billion for 2581 new borrowers and existing mortgage loans with total amount of MNT 22.9 billion have been transferred to 8% (±1%) p.a. interest rate. TDB's market share of 8% (±1) Mortgage loan reached 23% in the reporting period.

Outstanding payment order

TDB has increased the possibility of Outstanding Payment Order Service to increase the clients savings. The improvement has enabled the Outstading Payment Order service users to transfer by certain percentage from their income in addition to transfer in constant amounts.

Introduced E-invoices

The billing system for the water usage from the Water and Channel Management Authority has been successfully authomated and integrated to the Most Money Billing system. As a result, customers now able to pay water consumption bills at any branch of TDB.

PayEasy international remittance service

Since year 2009, TDB has successfully launched PayEasy money transferring service to provide banking services to individuals and their families who reside, study and work in South Korea. In order to promote the inclusion of the service, TDB conducts trainings in cooperation with "National Information Center of Employment and Training". As a result, people who reside and work under labor contract in South Korea are now able to make savings from their earnings, further to apply for 8% mortgage loan, check account balance, and utilize the funds using online banking platforms.

PAYMENT CARD BUSINESS ACTIVITIES

In the reporting period, TDB worked towards expanding the network of card payments to enhance and introduce additional opportunities to the card products and services and introduce of new channels and payment methods to payment card business. Within the framework, TDB has successfully implemented a number of projects including "introduction of e-payment system to the public transportation service of Ulaanbaatar", introduction of ATMs that take deposits and integration of entities' financial program with bank's online platform.

TDB provides card system and networking to the 7 commercial banks out of 12, enabling them to provide card business. Therefore, created the largest eco-payment system network in Mongolia. In cooperation with "Union Pay International" we have organized the first "International Payment Card Risk Forum-2015" and discussed critical issues Mongolian commercial banks are facing.

The commercial bank that accepts the widest range of cards for payment

With the acceptance of JCB, Diners Club, Discover cards at the POS terminal of TDB, the bank has proven its excellence in accepting the widest range of cards for payment in Mongolia.

Diners Club INTERNATIONAL   DISCOVER NETWORK

E-Banking service has been improved to a new level

TDB has developed and improved its online banking platform and now TDB Online is able to receive customs tax payments. Introduction of new feature eases the customs and tax payments, and provides new channel for the payment for the customers. Customers are now able to pay customs and tax payments promptly, using mobile phone and, or e-banking service from any custom's inspection zones at any border of Mongolia.

UnionPay Cards to be accepted in online payment

TDB has successfully improved the usage of the UnionPay card as UnionPay cards are now accepted for the online payments and purchases from online shopping and online services web sites, operating in Mongolia.

FOREIGN RELATIONS AND COOPERATION WITH INTERNATIONAL BANKS AND FINANCIAL INSTITUTIONS

Trade and development bank strives to expand its operational horizon internationally and increase mutually beneficial cooperation with major international banks and business corporations, and to be the financial gateway representing Mongolia on the international financial markets.

Successfully repaid the USD 300 million bond

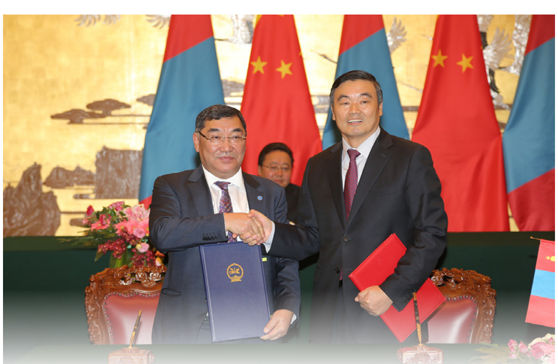
In 2012, TDB had issued USD 300 million bond under the USD 700 million Euro Medium Term Note Program with 3 year tenor. The bond matured on September 20, 2015 and TDB has successfully repaid the bond.

TDB successfully issued USD 500 million bond Guaranteed by Government of Mongolia

In May 2015, TDB has successfully issued USD 500 million bond guaranteed by the Government of Mongolia under the Global Medium Term Program on the international financial market. The 5-year tenor bond was priced at 9.375% and collected orders of more than USD 2.3 billion from 230 investors, which signifies oversubscription by 4.6 times and furthermore showed that the reputation and financial ability of TDB is valued among investors.

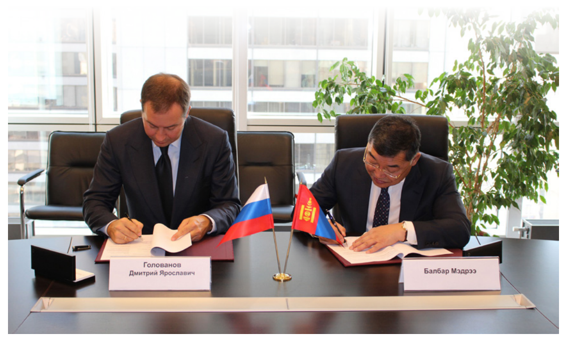
TDB has signed USD 25 million loan agreement with OPEC Fund for International Development

In August 2015, TDB has signed USD 25 million loan agreement with OPEC Fund for International Development. The loan was to support TDB's capacity to finance the local corporates' and SMEs' foreign trade finance requirements with a focus on SMEs. The facility's main objectives include jobs creation and improvement of livelihood as a result of supporting access to finance by local businesses.



Broadening of international relations and cooperation

In 2015, TDB has broadened its cooperation with banks and financial institutions from Russia, China and European countries, and increased the import financing opportunity from these countries. For example, TDB has signed RUB 1.3 billion General loan agreement with Export Import bank of Russia and has successfully onlent first loan to its client in October 2015. During the President of Mongolia's official visit in Beijing, TDB has signed USD 60 million agreement with China Devlopment Bank to support the implementation of the major projects developed by Mongolia and China. Furthermore, TDB has signed Memorandum of Understanding with Československá obchodní banka (CSOB) and Hungarian Trade House to cooperate in the trade finance from Czech Republic and Hungary.



Corporate relations activities

In the reporting period, TDB has activated its relationship with 94 corporate clients and provided comprehensive banking products and services in order to improve the quality and standards of products and services provided to TDB's strategically important customers and to develop the corporate relations to a new level. Under the objective, TDB organized seminars and workshops throughout the year to introduce banking products and services, to ensure active and daily use of these products services and to provide personal financial management knowledge to corporate employees.

Successfully disbursed on-lending and project financing

TDB has successfully financed 23 clients' projects for the total amount of MNT 16.5 billion in cooperation with on-lending programs of international financial institutions such as SME and Financial Sector Development project by KfW, Two-Step-Loan Project for Small and Medium-Scaled Enterprises Development and Environmental Protection by Japan International Cooperation Agency, Agriculture and Rural Development Project by Asian Development Bank, to support and develop the operations of small and medium enterprises and businesses. In addition, TDB has successfully disbursed the first loan under the JPY 8 billion Japan export credit line financed by Japan Bank of International Cooperation (JBIC).

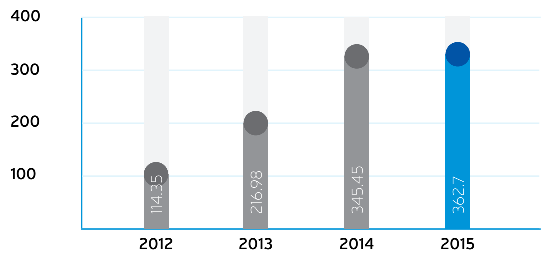
Trade finance line utilization has improved

TDB caters in excellence to the trade finance needs of its clients in cooperation with 45 top rated international banks and financial institutions from the approved USD 564.2 million trade finance line. The trade finance line increased by 9% from previous year and it is mainly used in confirmation of import letter of credits and guarantees by the third party international banks and import loans for financing of foreign trade of clients.

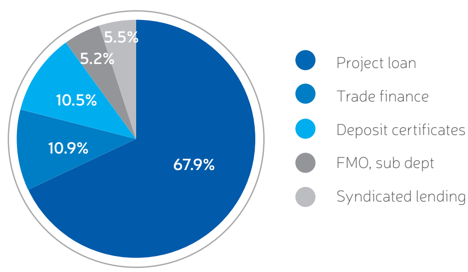
TDB has solely handled 58.2% of the foreign trade related transactions of Mongolia in 2015 and maintained the leading position on the market.

In the reporting period, the total outstanding balance of the loan acquired from international financial institutions totalled to USD 362.7 million, of which 67.9% comprised of import finance loan. This shows that, in the current economic situation TDB has actively cooperated with international financial institutions to support the clients operations by fulfilling the clients trade finance needs.

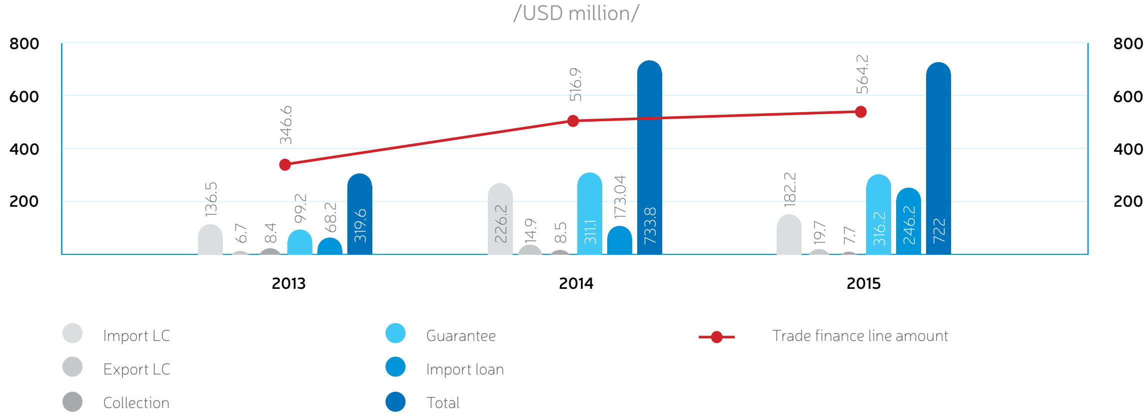
Total loan acquired from international financial institutions
/USD million/



Loans acquired from international financial institutions in 2015 by composition



Trade finance volume
/USD million/



TDB CAPITAL LLC

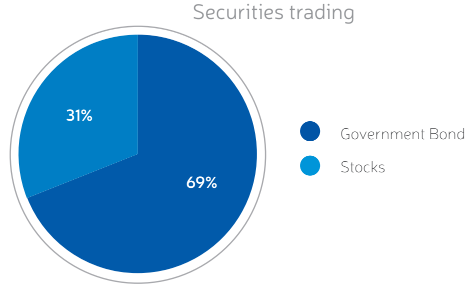
With dedication to foster its client's business development and active participation in the financial markets, TDB Capital LLC offers comprehensive investment banking services including corporate finance, securities trading, research analysis and asset management that are consistent with international standards and practices.

Securities trading

"TDB Broker" online trading system now has direct connection to Mongolian Stock Exchange

As TDB Broker online system is showing positive impacts on the development of Mongolian capital markets infrastructure, the online system's direct connection to Mongolian Stock Exchange allows investors to monitor their investment and participate in trading without any concern of time and distance. Moreover, TDB Capital LLC has executed total trading with amount of MNT 124.8 billion in 2015 on the Mongolian Stock Exchange.

Securities trading



Investment banking service

TDB Capital LLC acted as Joint Lead Manager for the Government of Mongolia's CNY1.0 billion note issuance under the Global Medium Term Note Program and Co-manager for Trade and Development Bank of Mongolia's US$500 million senior unsecured note issuance guaranteed by the Government of Mongolia.TDB Capital LLC led the largest IPO on Mongolian Stock Exchange, acted as sole underwriter to the IPO of MIK Holding JSC with amount of MNT37.3 billion. Further, the company has become the first and only company to be listed in the First class category on the Mongolian Stock Exchange.

SOVEREIGN BOND
OF MONGOLIA

CNY 1,000.0 MILLION

within US$5,000.0 million GMTN program

Joint Lead Managers:

Co-Manager:

Local Agent:

TDB
TRADE & DEVELOPMENT BANK

SENIOR UNSECURED NOTE

US$ 500.0 MILLION

within GMTN programme guaranteed by
the Government of Mongolia

Arrangers and Dealers:

Co-manager:

МIK
ХОЛДИНГ ХК

INITIAL PUBLIC OFFERING

MNT 37.3 BILLION

The largest IPO on the
Mongolian Stock Exchange

Sole Arranger:

TDB LEASING LLC

TDB Leasing LLC was founded in 2013 with joint venture among Trade and Development Bank of Mongolia, TDB Capital LLC of Mongolia and MG Leasing Corporation of Japan and is committed to providing tailored financial leasing services which are based on client's demand and encourage positive business environment.

Financial leasing service

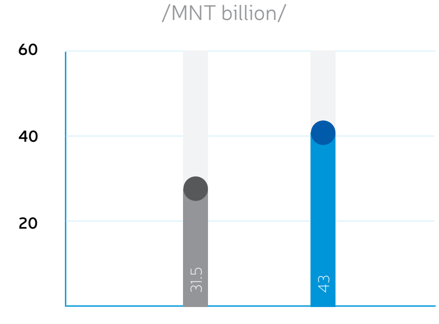
"TDB Leasing" LLC support client's demand by offering financial leasing service to new technology in manufacturing, mining, construction, transportation, agriculture sector.

In 2015, the company financed MNT 27.3 billion for new clients and total volume of financial leasing accounted MNT 43.0 billion, which makes the company one of the leading leasing service provider in Mongolia.

Partners and suppliers

"TDB Leasing" LLC is closely working together with the top companies which operate in all major sectors in Mongolia including infrastructure, construction, agriculture, manufacturing, transportation and mining by supporting their financial needs with established cooperation agreements.

Total amount of financial leasing services
/MNT billion/



TREASURY MANAGEMENT

Asset and Liability management

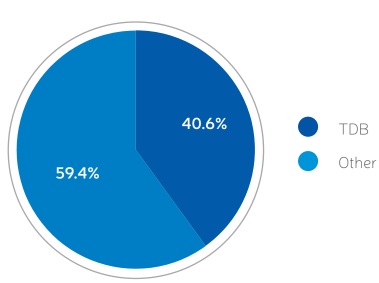
Eventhough the foreign direct investment fell, macro-economic performance slowed, and local currency weakness continued in 2015, TDB focused to maintain good reputation on international markets and attract and raise funds with longer terms and lower interest rates to support the local economy with foreign currency inflow. As a result, TDB's foreign funding balance increased by 20 percent from 2014 where the total foreign liabilities of the banking sector increased by 44 percent or from 2.5 trillion MNT to 3.6 trillion MNT as end of 2015. During the economic downturn, the total asset of banking sector decreased by 5 percent from previous year, while TDB's asset growth was stable at 2 percent. TDB's market share in sector increased from 23.2 to 24.8 percent in terms of asset size, and accounted for 23 percent of total liability of the sector. In this reporting period, to safekeep customers and shareholders capitals, sustain high quality level of assets, TDB improved top management information system, co-operation between treasury and other related business units, and standardized upscale performance of relationship with business communication.

The main indicator of risk capacity and return, the total equity has reached to 700 billion MNT accounting for 27 percent of total banking sector and maintained capital adequacy ratio above 14 percent, which set by Bank of Mongolia and strengthened financial capacity.

Money market operation

Within the purpose of improving productivity and cash flow projection management, TDB actively participated in trading of Government bonds, Central bank bills, interbank facility and mortgage backed securities issued by Mongolian Mortgage Corporation, which contributed significant increase in interest income. TDB held 40 percent of the local government bond's trading volume and worked closely with other foreign and domestic financial institutions.

Volume in money market operation



Bullion market trading

In line with policy of supporting gold producers from State, the Bank of Mongolia worked to provide Government guaranteed financing to the gold sectors in order to increase countrỳ s foreign reserve. Hence, TDB intensified its activities to the gold bullion market, and simplified the services to the gold producers, such as extending service hours and flexible pricing policy etc. In addition to that, TDB incorporated with foreign institution to commence gold exporting business and signed the contract as the first bank exporting gold in history. Further, TDB works to provide more customer tailored products and services to the gold miners, including simplified prefinancing. In the reporting period, TDB purchased 4.0 tons of physical gold, which accounted 27 percent of total gold volume of the country.

Foreign exchange market

As a result of continues improvement "TDB Online" service, and simplification of process and raising the limit, the customers do not need pay a visit to TDB, and a number of customers having online service doubled. In addition, by introducing new currency to the local market, TDB has become only and first bank to accept settlement in Turkish Lira and applauded as the biggest foreign currency service provider, including the number of foreign currency pairs. Moreveor, TDB held leading position in local foreign exchange market and performed 1/3 of the market volume.

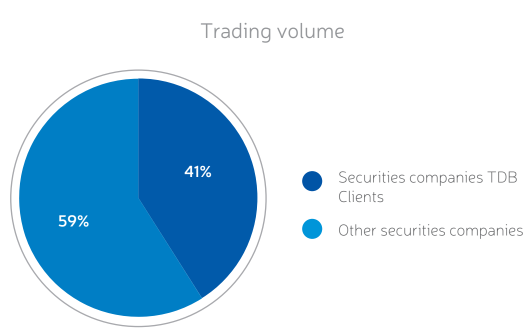
CUSTODIAN SERVICE

Securities services

Aiming to attribute to the development of the Mongolian capital market, to attract the international professional investors to the domestic market and being as a financial gateway between the foreign investors and the domestic capital market, in 2015, TDB introduced the complete system of the custodian solution module to provide the specialized comprehensive custodian banking services and products in line with international standards and requirements.

- On May 22, 2015, at the first time, TDB made an official go-live of the custody solution module jointly with the Russian software company - Diasoft, a leading provider of cutting-edge financial software solutions. By introducing an innovative custody solution that ensures automation of the whole spectrum of custody activities; including processing of custody transactions, calculation of depository commissions, as well as a full integration with back-office modules of financial institutions, the improvement of TDB's overall securities settlement and custody transaction operation, reduction of the possible operational risks of mistakes are made, also allows TDB to provide professional and international standard services to investors and allow the country to attract more foreign investments from international market.
- Starting from July 2015, to provide one-door securities services for both our domestic and international clients, the Custody securities division has been covering the securities settlement service. In 2015, TDB maintained the cooperation and clearing settlement agreement with the TOP 10 local securities Companies, which executed more than 41 percent of the domestic capital market trading volume at the Mongolian Stock Exchange in financial year.

Percentage of the capital market trading volume - TDB client's trading volume in the total MSE trading volume



Securities Companies maintaining the clearing agreement with TDB

TDB CAPITAL · Gatsuurt · ARD CAPITAL Securities company · sec · MIBG Mongolian Investment Banking Group · National Securities · EURASIA CAPITAL · KDB Daewoo Securities · STANDARD CAPITAL Investment & Development Group

RISK MANAGEMENT

Implemented effective policy of credit risk

Due to the global and China's economic slowdown and the decrease in demand for the major commodities have led to the lower prices on the market, which presents a major economic challenge for Mongolia. In 2015, the total foreign trade turnover and foreign direct investment declined by 23.1% and 20.5% respectively, and overall economic growth slowed down reaching 2.3%. It has negatively influenced the operation of domestic companies and became the main reason of increase in risk of bank's loan portfolio.

In connection to the market condition, TDB has improved monitoring of loan quality and loan repayment, improved the evaluation method of the pledge, identified the risk in credit process and minimized potential risks by making modification to the relevant guidelines in risk prevention, made improvements of market operating procedures and loan programs, conducted capacity building and training of loan officers, and improved the Risk Reporting System.

Ready to implement International Financial Reporting Standard (IFRS)

In line with the Resolution jointly adopted by President of Bank of Mongolia and Minister of Finance on February 16 2015, in regard to the Renewed banking accounting guideline, TDB has developed methodology and guidelines on evaluation and measurement of the market value decrease of banks total loan portfolio and creation of credit risk fund in accordance to the International Financial Reporting Standard.

Improved the methodology of determining loan portfolio risk

TDB has continually improved loan portfolio risk management and conducted quarterly stress test on loan portfolio in connection with the current market conditions, therefore, improved the determination of potential loan portfolio risks by harmonizing International standard models, recommendations of the Basel Committee and scenarios and conditions of Sensitivity analysis of Mongol Bank with the historical data of TDB. For example, in the scenarios where strong appreciation of foreign currencies, value reduction of pledged assets, increase in unemployment rate due to the economic condition, price fall of minerals on international market, it is advantageous to predict the stress rate to the loan portfolio. Also, Risk management department started using internationally recognized "Credit Portfolio View-CPV" model in order to evaluate the credit risk of loan portfolio more accurately.

Fully automated banks' loan approval process

A significant works conducted such as simplifying the loan processing, accelerating the decision making, and automation of conclusion of loan agreement, related reports and information, creating the loan database, therefore, enabling to develop credit risk management that meets international standards.

Improved market risk management system

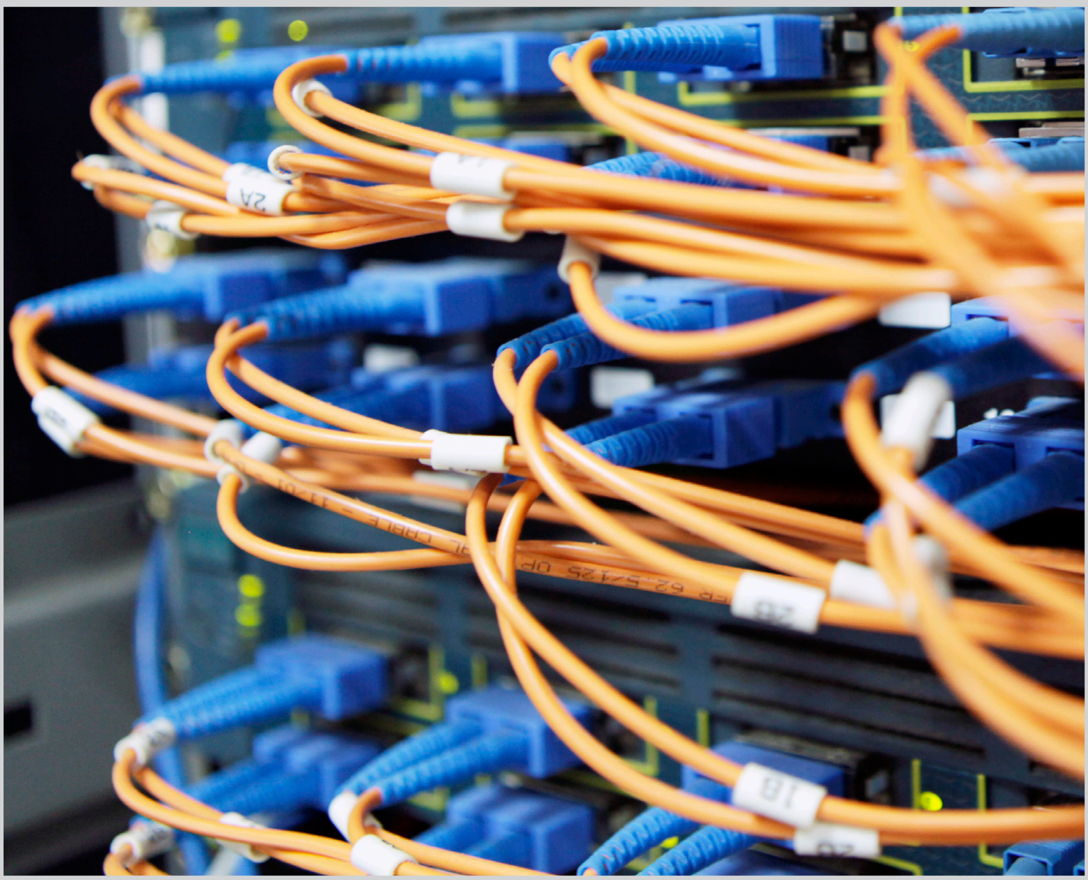
TDB studies the influence of political and Socio-economic regulations, changes and other abnormal market conditions on bank activities, and improved methods to assess the main risks, study and improve the models, and assesses the possible risks.

With in the management of macroeconomic risk, TDB also conducts a regular study of the macro economy and main economic sectors, estimates and monitors the interest rate and exchange rate risks. It also successfully implemented a customer and country Risk Policy.

Liquidity Risk Management

The banking sector has varied sources of funding such as drawing capital from international market and loans from foreign and domestic organizations, which requires special attention to the Liquidity risk. The TDB estimates "Liquidity coverage ratio", the Short-term Solvency Ratios, and "Net stable funding ratio", the Long-term Solvency Ratios

INFORMATION TECHNOLOGY MANAGEMENT



Banking product and services are even closer to customers

TDB became the first Mongolian bank to have successfully transferred Society for Worldwide Interbank Financial Telecommunication (SWIFT) system to SWIFT Alliance Access. The improvement gives the further possibility to offer more advanced international transfer products and services.

With the introduction of the Insurance module based on the ERP system to TDB core accounting system, TDB now offers insurance products to the clients via its branches and settlement centers.

TDB was also the first Mongolian bank to introduce the Russia's Diasoft custodian bank system to its custodian services.

We also improved TDB's web page www.tdbm.mn into modern information technology and delivered to the clients new features and image of the bank.

TDB matched it's Information Technology to the International Standards

When TDB relocated to its new office, all Server Systems were transferred with minimal disruptions to the new Central Office of TDB and redesigned primary and backup data centers with new equipments based in line with international standards. TDB also has succesfully introduced international PCI DSS standard to the bank card system and database system.

TDB is automating its internal operations

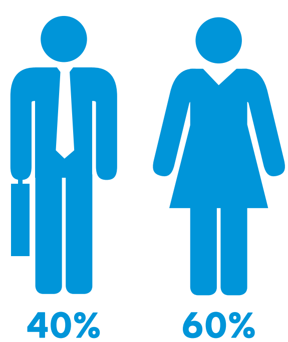
TDB constantly focuses and invests in reducing risks caused by personal errors and increasing the work productivity by automating TDB's internal operations based on advanced information technology. For example, we are planning to introduce complex ERP system in order to fully automate the internal operations of TDB, and succesfully introduce the inventory, assets and acquisition modules that are closely linked with the core bank accounting system.

HUMAN RESOURCE MANAGEMENT

In 2015, TDB internally announced the year of innovation and organized following tasks to develop attitude and mindset of staff:

- Draw the action plan for implementing innovation and have identified the cases in daily operations.
- Programs are successfully implemented in steps to regularly train and develop mid-level managers and prepare trainer teachers.
- Introduced advanced technology and methods in organizing training.
- Conducted a research on the employees' training needs and provided training in accordance to the needs.
- We have concluded agreements and contracts with various organization where our staff can apply for trainings in order to develop their skills and receive certain discounts.
- To encourage the morality and ethics within staff, the legal documents were further refined and facilated one month campaign to strengthen ethics within the staff.
- Conducted special trainings to increase the awareness of how individual workers achievements are interconnected with the organizational mission and to increase individual workers involvement in the effective team work.
- Sent e-mails and SMS information in order to increase the feeling of pride of working at TDB.

Employees gender ratio



Human resource operation

- We focused on behavior-based approach in the selection process and produced team work results.
- We worked to introduce easy-to-understand softwares and equipments in order to automate the human resource operations and created integrated Human Resource software that will enable information sharing at all levels.

Activation and stabilization of staff

- Within the celebration of 25th anniversary of the TDB, many competitions were announced, one of which was photo exhibition of historical events and honored workers of TDB. In order to create historical photo database, the Historical Photo Competition was announced and organized the exhibition with the historical photos.
- Also organized activities directed to the families of the employees such as video competition among children. TDB organized training program "How to choose my future profession?" among teenage children of employees in cooperation with various organizations.

BANKS' WITH NOSTRO ACCOUNTS

Currency	No	Bank name	SWIFT Code
USD	1	AGRICULTURAL BANK OF CHINA, HUHEHAOTE, INNER MONGOLIA	ABOCCNBJ050
	2	STANDARD CHARTERED BANK	SCBLUS33
	3	AO UNICREDIT BANK	IMBKRUMM
	4	KOREA EXCHANGE BANK	KOEXKRSE
	5	CHINA CONSTRUCTION BANK CORPORATION, ERLIANHAOTE SUB BRANCH	PCBCCNBJNME
	6	SBERBANK (BAIKALSKY HEAD OFFICE)	SABRRU66
	7	RUSSIAN AGRICULTURAL BANK	RUAGRUMM
	8	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ICBKCNBJNMA
	9	BAOSHANG BANK	BTCBCNBJ
	10	OVERSEA - CHINESE BANKING CORPORATION LIMITED	OCBCSGSG
	11	COMMERZBANK AG	COBADEFF
	12	AO JSC VTB Bank	VTBRRUMM
	13	HANA BANK	HNBNKRSE
	14	BANK OF CHINA (HONG KONG) LIMTED	BKCHHKHH
	15	DEUTSCHE BANK TRUST COMPANY AMERICAS	BKTRUS33
	16	EXIM BANK OF RUSSIA	EXIRRUMM
EUR	17	ING BANK NV/SA	BBRUBEBB010
	18	COMMERZBANK AG	COBADEFF
	19	EXIM BANK OF RUSSIA	EXIRRUMM
JPY	20	THE BANK OF TOKYO - MITSUBISHI UFJ, LTD.,	BOTKJPJT
	21	MIZUHO CORPORATE BANK, LTD.	MHCBJPJT
	22	SUMITOMO MITSUI BANKING CORPORATION	SMBCJPJT
GBP	23	THE BANK OF TOKYO - MITSUBISHI UFJ, LTD	BOTKGB2L
	24	STANDARD CHARTERED BANK	SCBLGB2L

CHF	25	COMMERZBANK AG	COBADEFF
AUD	26	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	ANZBAU3M
KRW	27	KOREA EXCHANGE BANK	KOEXKRSE
CNY	28	AGRICULTURAL BANK OF CHINA, HUHEHAOTE, INNER MONGOLIA	ABOCCNBJ050
	29	CHINA CONSTRUCTION BANK CORPORATION, ERLIANHAOTE SUB BRANCH	PCBCCNBJNME
	30	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ICBKCNBJNMA
	31	BAOSHANG BANK	BTCBCNBJ
	32	SHANGHAI PUDONG DEVELOPMENT BANK	SPDBCNSH
	33	BANK OF CHINA (HONG KONG) LIMTED	BKCHHKHH
	34	BANK OF CHINA INNER MONGOLIA BRANCH, ERLIANHOT SUB - BRANCH	BKCHCNBJ89N
	35	BANK OF INNER MONGOLIA	HSSYCNBH001
CAD	36	COMMERZBANK AG	COBADEFF
RUB	37	AO UNICREDIT BANK	IMBKRUMM
	38	SBERBANK (BAIKALSKY HEAD OFFICE)	SABRRU66
	39	RUSSIAN AGRICULTURAL BANK	RUAGRUMM
	40	AO JSC VTB Bank	VTBRRUMM
	41	EXIM BANK OF RUSSIA	EXIRRUMM
NZD	42	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	ANZBNZ22
HKD	43	BANK OF TOKYO - MITSUBISHI UFJ	BOTKHKHH
SGD	44	OVERSEA - CHINESE BANKING CORPORATION LIMITED	OCBCSGSG
SEK	45	NORDEA Bank AB (PUBL)	NDEASESS
TRY	46	TURKIYE IS BANKASI	ISBKTRIS

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Financial Statements
31 December 2015 and 2014

(With Independent Auditors' Report Thereon)

Ulaanbaatar, 2015

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Trade and Development Bank of Mongolia LLC Corporate Information

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

Statement by Directors and Executives

We, D. Erdenebileg, R. Koppa and B. Medree, being the directors and executives of Trade and Development Bank of Mongolia LLC (the "Bank"), and D. Yanjmaa, being the officer primarily responsible for the consolidated financial statements of the Bank and its subsidiaries (together the "Group"), do hereby state that, in our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2014 and 2013 and of its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.

D. Erdenebileg

Director

Randolph Koppa

President

B. Medree

Chief Executive Officer

D. Yanjmaa

Director of Financial Management and Control Department

Ulaanbaatar, Mongolia
Date : 28 March 2016

Independent Auditors' Report

KPMG Samjong Accounting Corp.
Gangnam Finance Center, 10th Floor,
152 Teheran-ro
Gangnam-gu, Seoul 135-984
Republic of Korea

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

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

We have audited the accompanying consolidated financial statements of Trade and Development Bank of Mongolia (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statements of financial position as at 31 December 2015 and 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

KPMG SAMJONG

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015 and 2014, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as modified by Bank of Mongolia guidelines.

Other Matter

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

KPMG Samjong Accounting Corp.
27 March 2015
Seoul, Korea

КЭЙ ПИ ЭМ ЖИ АУДИТ
ХХК
KPMG AUDIT
LLC
УЛААНБААТАР ХОТ
ТТ33977 ☎ 5543495

KPMG Samjong Accounting Corp.

This report is effective as at 28 March 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

	Note	2015 MNT'000	2014 MNT'000
Assets			
Cash and due from banks	5	694,959,701	1,054,739,557
Investment securities	6	1,412,539,922	908,732,944
Investment in associates and joint ventures	7	46,763,866	14,530,077
Loans and advances, net	8	2,644,979,616	2,777,188,433
Bills purchased under resale agreements	9	99,799,000	-
Subordinated loans	10	4,000,000	4,000,000
Property and equipment, net	11	204,884,777	298,042,268
Intangible assets, net	12	1,449,739	4,542,466
Investment property	13	99,789,000	33,689,000
Foreclosed real properties, net	14	1,370,810	1,020,454
Current tax assets		-	5,676,348
Other assets	15	333,547,874	311,018,769
Total assets		5,544,084,305	5,413,180,316
Liabilities and shareholders' equity			
Liabilities			
Deposits from customers	16	2,209,953,463	2,533,607,001
Deposits and placements by banks and other financial institutions	17	112,754,972	120,007,336
Bills sold under repurchase agreements	18	99,799,000	-
Borrowings	19	1,012,394,089	1,107,328,964
Current tax liabilities		4,385,983	361,331
Debt securities issued	20	1,175,921,345	741,354,845
Subordinated debt securities issued	21	29,939,700	75,351,569
Other liabilities	22	231,003,212	279,151,158
Total liabilities		4,876,151,764	4,857,162,204
Equity			
Share capital	23	50,000,011	16,525,280
Share premium		19,272,456	19,272,456
Treasury shares	24	-	(2,620,626)
Revaluation reserves	11, 25	135,298,874	153,645,983
Accumulated unrealised loss on available-for-sale financial assets	25	(23,831,129)	(27,487,697)
Accumulated unrealised gain on valuation of cash flow hedges	15, 25	39,938,362	-
Retained earnings		445,209,993	395,019,832
Total equity attributable to equity holders of the Group		665,888,567	554,355,228
Non-controlling interests		2,043,974	1,662,884
Total equity		667,932,541	556,018,112
Total liabilities and equity		5,544,084,305	5,413,180,316

See accompanying notes to the consolidated financial statements.

	Note	2015 MNT'000	2014 MNT'000
Interest income	26	532,856,753	444,673,852
Interest expense	27	(358,520,676)	(296,489,329)
Net interest income		174,336,077	148,184,523
Net fee and commission income	28	29,419,494	27,364,138
Other operating income (loss), net	29	(15,192,458)	30,882,990
Net non-interest income		14,227,036	58,247,128
Operating income		188,563,113	206,431,651
Operating expense	30	(91,417,672)	(68,785,944)
Share of profit of associates and joint venture	7	12,569,455	1,085,417
Provision for impairment losses	31	(46,976,039)	(44,749,513)
Profit before tax		62,738,857	93,981,611
Income tax expense	33	(1,263,569)	(474,447)
Net profit for the year		61,475,288	93,507,164
Other comprehensive income for the year:			
Items that will never be reclassified to profit or loss			
Net change in revaluation reserves of property and equipment	11, 25	7,943,000	135,090,787
Items that are or may be reclassified to profit or loss			
Net unrealised change in fair value of available-for-sale financial assets	25	3,656,568	(41,641,303)
Accumulated unrealised gain on valuation of cash flow hedges	15, 25	39,938,362	-
Other comprehensive income		51,537,930	93,449,484
Total comprehensive income for the year		113,013,218	186,956,648
Profit attributable to:			
Equity holders of the Group		61,094,198	93,420,049
Non-controlling interests		381,090	87,115
Net profit for the year		61,475,288	93,507,164
Total comprehensive income attributable to:			
Equity holders of the Group		112,632,128	186,869,533
Non-controlling interests		381,090	87,115
Total comprehensive income for the year		113,013,218	186,956,648

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

For the years ended 31 December 2015 and 2014

(Unit : MNT'000)

		Attributable to equity holders of the Group									
	Note	Share capital	Share premium	Treasury shares	Revaluation reserves	Accumulated unrealized gain(loss) on available-for-sale financial assets	Accumulated unrealized gain on valuation of cash flow hedges	Retained earnings	Total	Non-controlling interests	Total equity
1 January 2014		16,525,280	19,272,456	(2,620,626)	18,555,196	14,153,606	-	301,599,783	367,485,695	1,575,769	369,061,464
Total comprehensive income											
Net profit for the year		-	-	-	-	-	-	93,420,049	93,420,049	87,115	93,507,164
Other comprehensive income											
Net unrealised change in fair value of available-for-sale financial assets	25	-	-	-	-	(41,641,303)	-	-	(41,641,303)	-	(41,641,303)
Net change in revaluation reserves of property and equipment	11, 25	-	-	-	135,090,787	-	-	-	135,090,787	-	135,090,787
Total other comprehensive income		-	-	-	135,090,787	(41,641,303)	-	-	93,449,484	-	93,449,484
31 December 2014		16,525,280	19,272,456	(2,620,626)	153,645,983	(27,487,697)	-	395,019,832	554,355,228	1,662,884	556,018,112
1 January 2015		16,525,280	19,272,456	(2,620,626)	153,645,983	(27,487,697)	-	395,019,832	554,355,228	1,662,884	556,018,112
Total comprehensive income											
Net profit for the year		-	-	-	-	-	-	61,094,198	61,094,198	381,090	61,475,288
Other comprehensive income											
Net unrealised change in fair value of available-for-sale financial assets	25	-	-	-	-	3,656,568	-	-	3,656,568	-	3,656,568
Net change in revaluation reserves of property and equipment	11, 25	-	-	-	(18,347,109)	-	-	26,290,109	7,943,000	-	7,943,000
Net unrealised gain on valuation of cash flow hedges	15, 25	-	-	-	-	-	39,938,362	-	39,938,362	-	39,938,362
Total other comprehensive income		-	-	-	(18,347,109)	3,656,568	39,938,362	26,290,109	51,537,930	-	51,537,930
Transactions with shareholders											
Capitalisation of retained earning		33,474,731	-	-	-	-	-	(33,474,731)	-	-	-
Dividend withholding tax		-	-	-	-	-	-	(3,719,415)	(3,719,415)	-	(3,719,415)
Disposition of treasury shares		-	-	2,620,626	-	-	-	-	2,620,626	-	2,620,626
31 December 2015		50,000,011	19,272,456	-	135,298,874	(23,831,129)	39,938,362	445,209,993	665,888,567	2,043,974	667,932,541

See accompanying notes to the consolidated financial statements.

	Note	2015 MNT'000	2014 MNT'000
Cash flows from operating activities:			
Net profit for the year		61,475,288	93,507,164
Adjustments for:			
Depreciation and amortisation	11, 12, 30	11,379,427	5,910,296
Share of profit of associates and joint venture	7	(12,569,456)	(1,085,417)
Gain on disposition of securities	29	(411,065)	(8,051,659)
Net interest income	26, 27	(174,336,077)	(148,184,523)
Income tax expense	33	1,263,569	474,447
Loss (Gain) on disposition of property and equipment	29	1,777,788	(7,840,637)
Property and equipment written off	30	10,376,532	6,313
Provision for impairment losses	31	46,976,039	44,749,513
Valuation gain on investment property	13, 29	(4,654,281)	(300,755)
Impairment losses of goodwill	12	2,803,205	-
Operating profit before changes in operating assets and liabilities:		(55,919,031)	(20,815,258)
Increase in balances with BOM	5, 35	24,245,240	34,855,589
Decrease (Increase) in loans and advances		84,864,873	(287,331,592)
Increase in bills purchased under resale agreement	9	(99,799,000)	-
Decrease in subordinated loan	10	-	3,000,000
Decrease in other assets(*)		52,800,779	109,630,300
Increase (Decrease) in deposits from customers	16	(323,653,538)	393,914,852
Decrease in deposits and placements by banks and other financial institutions	17	(7,252,364)	(52,102,363)
Decrease in other liabilities(*)	22	(43,326,037)	(131,195,158)
Increase in current tax		5,676,348	-
Interest received		497,315,781	423,706,197
Interest paid		(363,342,585)	(260,922,498)
Income taxes paid		(958,332)	(13,435,698)
Net cash flows provided by (used in) operating activities		(229,347,866)	199,304,371
Cash flows from investing activities:			
Purchase of investment securities	6	(1,291,419,591)	(1,477,483,667)
Disposal of investment securities	6	791,847,245	1,422,593,196
Purchase of investment in associates and joint ventures	7	(19,664,333)	(1,316,003)
Purchase of property and equipment	11	(9,501,274)	(20,574,551)
Proceeds from disposal of property and equipment	11	26,591,946	13,565,966
Purchase of intangible assets	12	(680,125)	(993,393)
Proceeds from disposal of foreclosed real properties	14	-	1,004,784
Net cash flows used in investing activities		(502,826,132)	(63,203,668)

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

See accompanying notes to the consolidated financial statements.

	Note	2015 MNT'000	2014 MNT'000
Cash flows from financing activities:			
Net proceeds from (Repayment of) bills sold under repurchase agreements	18	99,799,000	(372,650,503)
Proceeds from borrowings	19	826,022,999	730,295,187
Repayments of borrowings	19	(920,957,874)	(780,057,151)
Proceeds from debt securities issued	20	962,349,391	276,419,790
Repayments of debt securities issued	20	(527,782,891)	-
Proceeds (Repayment of) from subordinated debt securities issued	21	(45,411,869)	9,242,108
Sales of treasury shares	24	2,620,626	-
Net cash flows provided by (used in) financing activities		396,639,382	(136,750,569)
Net decrease in cash and cash equivalents		(335,534,616)	(649,866)
Cash and cash equivalents at beginning of year		733,706,799	734,356,665
Cash and cash equivalents at end of year	35	398,172,183	733,706,799

See accompanying notes to the consolidated financial statements.

1 Organisation and business

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

Controlling company

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

Pursuant to the aforementioned resolutions, license and charter, the Bank conducts banking activities such as cash savings, lending, handling and settlements of cash transfers, foreign currency transactions and other banking activities through its 22 branches and 28 settlement centers.

Subsidiaries included in consolidation

(i) TDB Capital LLC

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

(ii) TDB Media LLC and its subsidiaries

TDB Media LLC ("TDBM") was established in 2011. The Bank has been cooperating with Bloomberg L.P. to broadcast international financial news through TDBM, which is a media company licensed by the Mongolia Telecommunication Regulatory Commission to operate the Times Media Corporation in Ulaanbaatar since 2011. The Group additionally invested in TDBM on 19 November 2013 and the Group hold approximately 84.4% of TDBM as at 31 December 2015. TDBM owns 100% of the Times Media Corporation and 70% of Grand Step LLC which carries out publication of magazines as at 31 December 2015.

The direct parent company of the Group is Globull Investment and Development SCA ("Globull"), which owns a 65.83% interest in the Group 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. US Global is a consortium owned by Central Asia Mining LLC and Mr. Erdenebileg Doljin (the current Chairman of the Group), and it had directly owned approximately 7.31% of the Group. Consequently, US Global's ownership in the Group directly and indirectly through Globull amounted to approximately 73.14% as at 31 December 2015. Goldman Sachs owns 157,862 shares (or 4.78% interest) and United Banking Corporation LLC, which is a related party of the Group per IAS 24 Related Party Disclosures owns 659,462 shares (or 19.95% interest).

The Group sold the Bank's treasury shares (126,015 shares or 3.81% interest) to the United Banking Corporation, and the United Banking Corporation additionally acquired 189,344 shares from various individuals during the year ended 31 December 2015. Approximately 2.13% of the Group's total outstanding ordinary shares are owned by various individuals as at 31 December 2015.

1 Organisation and business (continued)

Condensed financial statements of subsidiaries as at 31 December 2015 and 2014, and for the years ended 31 December 2015 and 2014 were as follows:

	2015 MNT'000		2014 MNT'000	
Subsidiaries	Asset	Liability	Asset	Liability
TDB Capital	32,208,496	44,162	23,484,757	265,524
TDB Media	14,397,058	1,732,424	12,127,687	1,788,581

	2015 MNT'000		2014 MNT'000	
Subsidiaries	Operating revenue	Net income	Operating revenue	Net Income
TDB Capital	1,825,636	945,101	1,557,399	1,190,097
TDB Media	3,727,957	819,426	3,098,734	212,703

2 Basis of preparation

Statement of compliance

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

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

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

The consolidated financial statements were authorised for issue by the Board of Directors on 28 March, 2016.

Basis of measurement

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

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

Functional and presentation currency

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

2 Basis of preparation (continued)

Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

Changes in accounting policies

Except for the following new standards and amendments to existing standards, the Group applies its accounting policies consistently which were used for preparing its annual consolidated financial statements as at and for the year ended 31 December 2014. The following changes in accounting policies are reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2015.

(i) Amendments to IAS 19 Employee Benefits

The amendments clarify that if employees or third parties make contributions meeting certain criteria, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered. The amendments require an entity to consider contributions linked to service when accounting for service cost and defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service on the calculation method of its plans or straight-line basis. These amendments are effective for annual periods beginning on or after July 1, 2014.

The Group applied the amendments retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

(ii) Amendments to IFRS 8 Operating Segments

The amendments clarify that an entity must disclose the judgements made by management in applying the aggregation criteria. The reconciliation of segment assets to total assets is only required to be disclosed if the assets are reported to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014.

The Group applied the amendments retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

2 Basis of preparation (continued)

Changes in accounting policies (continued)

(iii) Amendments to IFRS 13 Fair Value Measurements

The amendments clarify that short-term receivable and payable which do not have specified interest rate can be measured at original price of the invoice if the discount effect is not material. In addition, the portfolio exception can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. These amendments are effective for annual periods beginning on or after July 1, 2014.

The Group applied the amendments retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

(iv) Amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets

The amendments clarify that the accumulated depreciation or amortization on revaluation date is the difference between the gross and net carrying amounts of the asset. These amendments are effective for annual periods beginning on or after July 1, 2014.

The Group applied the amendments retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

(v) Amendments to IAS 24 Related Party Disclosures

The amendments clarify that an entity or members of an entity which provide key management personnel services to the reporting entity or the parent of the reporting entity are related parties subject to the related party disclosures. These amendments are effective for annual periods beginning on or after July 1, 2014.

The Group applied the amendments retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

(vi) Amendments to IFRS 3 Business Combinations

The amendments clarify that joint arrangements, not joint ventures, are outside the scope of IFRS 3. In addition, contingent consideration arrangements which are financial instruments should be classified as liabilities (or equities). All contingent consideration arrangements classified as assets (or liabilities) arising from a business combination should be subsequently measured at fair value through profit or loss. These amendments are effective for annual periods beginning on or after July 1, 2014.

The Group applied the amendments retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

2 Basis of preparation (continued)

Changes in accounting policies (continued)

(vii) Amendments to IAS 40 Investment Property

The amendments clarify that if an entity acquires the property with ancillary services, it should treat that transaction as business combination. In addition, IFRS 3 is used to determine if the transaction is the purchase of an asset or business combination. These amendments are effective for annual periods beginning on or after July 1, 2014.

The Group applied the amendments retrospectively and the impact of the amendments on the consolidated financial statements is not significant.

3 Significant accounting policies

The accounting policies set out below have been consistently applied by the Group and are consistent with those used in previous years other than new accounting policies adopted by the Group in the current year.(see note 2)

Basis of consolidation

(i) Subsidiaries

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

(ii) Loss of control

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

(iii) Intra-group transactions eliminated on consolidation

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

3 Significant accounting policies (continued)

Basis of consolidation (continued)

(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.

Business combination

(i) Business combination

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

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

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

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

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

(ii) Goodwill

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

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

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

3 Significant accounting policies (continued)

Investment in associates and joint ventures

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

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

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

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

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

Foreign currency transactions

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

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

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

3 Significant accounting policies (continued)

Financial instruments

(i) Classification

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

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

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

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

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

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

3 Significant accounting policies (continued)

Financial instruments (continued)

(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.

(iii) Subsequent measurement

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

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

Derecognition of financial assets and liabilities

(i) Financial assets

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

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

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

3 Significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

(ii) Financial liabilities

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

Cash flow hedges

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

Cash and cash equivalents

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

3 Significant accounting policies (continued)

Property and equipment

(i) Recognition and subsequent measurement

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

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

(ii) Depreciation

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

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

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

Construction-in-progress

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

3 Significant accounting policies (continued)

Intangible assets

(i) Acquired intangible assets

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

(ii) Amortisation

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

- Software 3 years

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

Investment property

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

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

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

3 Significant accounting policies (continued)

Impairment

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

(i) Loans and receivables

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

In accordance with the BOM Provisioning Guidelines, the Group is required to determine the quality of loans and receivables based on their qualitative factor and time characteristics in classifying them and determining provisions. Such a model classifies the Group's loans and establishes allowances for loan losses at the rates of 1%, 5%, 25%, 50% and 100%, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. On 26 August 2014, BOM Provisioning Guidelines were revised and require the Group to recognise 1% (previously 0% was applied) allowance for loan loss for performing loan originated on or after 27 August 2014. The Group does not recognise 1% allowance for the deposit collateralized 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.

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

(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.

3 Significant accounting policies (continued)

Impairment (continued)

(iii) Held-to-maturity financial assets

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

(iv) Assets other than financial instruments

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

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

Repurchase agreements

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

3 Significant accounting policies (continued)

Share capital

(i) Ordinary shares

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

(ii) Treasury shares

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

(iii) Non-controlling interests

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

Provisions

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

Segment reporting

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

3 Significant accounting policies (continued)

Revenue

(i) Interest income

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

(ii) Fee and commission income

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

(iii) Rental income

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

(iv) Dividends

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

Operating lease payments

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

Income tax

Income tax expense is comprised of current tax only.

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

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

3 Significant accounting policies (continued)

Income tax (continued)

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

Employee benefits

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

New standards and interpretations not yet adopted

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

(i) IFRS 9 Financial Instruments

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

Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

(ii) Amendments to IFRS 11 Joint Arrangements

The amendments require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. These amendments are effective for annual periods beginning on or after 1 January 2016.

These amendments are not expected to have significant impact on the consolidated financial statements.

3 Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

(iii) IFRS 15 Revenue from Contracts with Customers

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

(iv) Revised Accounting Guidelines by Bank of Mongolia and Ministry of Finance

Bank of Mongolia and Ministry of Finance announced revised accounting guidelines for Mongolian Banks (the"Revised Accounting Guidelines") on 6 February 2015. The Revised Accounting Guidelines include more detailed and specific accounting treatments of assets, liabilities, equity, revenue and expense, and off-balance sheet items relating to banks. It includes accounting treatments for various types of financial instruments, option to estimate the loan loss impairment based on IAS 39 and related accounting treatment. In addition, it requires banks to apply deferred tax accounting for corporate income tax.
The Revised Accounting Guidelines are prospectively effective for annual reporting periods beginning on or after 1 January 2017. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the Revised Accounting Guidelines.

Others

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications do not affect net asset or net profit of accompanying consolidated financial statements.

4 Acquisition of Subsidiary

Business combination

On 19 November 2013 the Group obtained control of TDB Media LLC ("TDBM"), a media company licensed by the Mongolia Telecommunication Regulatory Commission to operate Bloomberg TV Mongolia in Ulaanbaatar since 2011 by acquiring additional shares and voting interests in TDBM. As a result, the Group's equity interest in TDBM increased from 49% to approximately 84.4%.

Even though the Group took control of TDBM on 19 November 2013, the Group deemed the acquisition date as 31 December 2013 since there were no significant transactions between the acquisition date and the end of the reporting period. As a result, the Group did not include total comprehensive income of TDBM in the consolidated financial statements as at and for the year ended 31 December 2013.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

	2013 MNT'000
Cash	5,240,000
Buildings	6,060,000
Total consideration transferred	11,300,000

The fair value of buildings was based on the market approach.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised assets acquired and liabilities assumed at the acquisition date.

	2013 MNT'000
Cash and cash equivalents	448,786
Property and equipment	8,567,435
Intangible assets	389,670
Other assets	987,741
Other liabilities	(321,068)
Total identifiable net assets acquired	10,072,564

4 Acquisition of Subsidiary (continue)

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	2013 MNT'000
Consideration transferred	11,300,000
Non-controlling interests, based on their proportionate interest in the recognised amounts of the assets and liabilities of TDBM	1,575,769
Fair value of pre-existing interest in TDBM	-
Fair value of identifiable net assets	10,072,564
Goodwill	2,803,205

Non-controlling interest

The following table summarises the information relating to non-controlling interest ("NCI") in TDBM.

31 December 2013
(In MNT'000)

	TDB Media LLC
NCI percentage	15.64%
Cash and cash equivalents	448,786
Property and equipment	8,567,435
Other assets	1,377,411
Liabilities	(321,068)
Net assets	10,072,564
Carrying amount of NCI	1,575,769

5 Cash and due from banks

	2015 MNT'000	2014 MNT'000
Cash on hand	62,391,611	70,182,271
Deposits and placements with banks and other financial institutions	287,224,533	293,571,604
Balances with BOM(*)	345,343,557	690,985,682
	694,959,701	1,054,739,557

(*) At 31 December 2015 and 2014, BOM requires that a minimum 12% of average customer deposits for two weeks must be maintained with BOM. In relation to the daily requirement, the Group also should maintain no less than 50% of the required reserve amount at the end of each day. At 31 December 2015 and 2014, the required reserve amount was MNT 296,787,518 thousand and MNT 321,032,758 thousand, respectively.

6 Investment securities

	2015 MNT'000	2014 MNT'000
Available-for-sale investment securities		
Unquoted equity securities, at cost(*1)	443,430	443,430
Equity securities, at fair value(*2)	94,006,770	78,448,110
Government bonds	9,336,383	445,234,481
Bank of Mongolia Treasury bills(*3)	194,649,861	-
Residential mortgage-backed securities(*4)	51,814,600	28,375,000
Promissory notes(*5)	74,193,728	-
	424,444,772	552,501,021
Held-to-maturity investment securities		
Government bonds	988,095,150	356,231,923
	1,412,539,922	908,732,944

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

(*2) The Group acquired additional equity security of Turquoise Hill Resources Ltd ("TRQ") during the year ended 31 December 2015. Unrealised loss of MNT 15,794,879 thousand arising from changes in the fair value of such investment was recognised directly in equity as other comprehensive income for the year ended 31 December 2015.

(*3) Bank of Mongolia treasury bills have short maturities from one week to four weeks. The carrying amount approximates fair value.

(*4) Residential mortgage-backed securities represent senior and junior notes issued by MIK active SPC (one to seven) ("MIK SPCs"), which bear interest of 10.5% based on 8% mortgage loans transferred to MIK SPCs by Mongolian banks. The carrying amount approximates fair value.

(*5) The carrying amount of Promissory notes issued by Ministry of Finance is regarded as fair value as maturity of promissory notes is equal to or less than twelve-month period.

7 Investment in associates and joint ventures

	2015 MNT'000	2014 MNT'000
Investment in MIK Holding JSC(*1)	43,438,826	11,476,733
Investment in MG Leasing LLC(*2)	871,839	1,695,567
Investment in JCDecaux Mongolia LLC(*3)	2,453,201	1,357,777
	46,763,866	14,530,077

(*1) MIK Holding LLC ("MIK") increased paid in capital in December 2015, the Group entered into a MNT 18,717,180 thousand investment. The Group's ownership interest in MIK increased to approximately 33.18% due to non-proportionate capital contribution. As a result, the Group recognised share of gain of MIK of MNT 4,038,372 thousand. In applying the equity method, the Group used the financial information of MIK as at 31 December 2015. The Group recognised its share of gain of MIK of MNT 9,206,541 thousand and MNT 1,085,044 thousand in 2015 and 2014, respectively.

(*2) In 2013, the Group entered into a MNT 1,773,610 thousand investment acquiring 55% equity interest in MG Leasing LLC ("MGLL") which is a joint venture established by the Group and MGL corporation. However, as decisions about relevant activities require the unanimous consent of the parties sharing control, the Group does not deem MGLL as a subsidiary but as a joint venture. In applying the equity method, the Group used the financial information of MGLL as at 31 December 2015. The Group recognised its share of loss of MGLL of MNT 823,728 thousand and MNT 41,401 thousand in 2015 and 2014, respectively.

(*3) In 2014, the Group entered into a MNT 1,316,003 thousand investment acquiring 49% equity interest in JCDecoux Mongolia LLC ("JCD"). As decisions about relevant activities requires the unanimous consent of the parties sharing control, the Group deems JCD as a joint venture. JCD increased paid in capital in June 2015, the Group entered into a MNT 947,153 thousand investment. The Group's ownership interest in JCD is not changed due to proportionate capital contribution. In applying the equity method, the Group used the financial information of JCD as at 31 December 2015, and recognised its share of gain of JCD of MNT 148,271 thousand and MNT 41,774 thousand in 2015 and 2014, respectively.

Condensed financial statements of associates as at 31 December 2015 and 2014, and for the years ende 31 December 2015 and 2014 were as follows:

	2015 MNT'000		2014 MNT'000	
Investees	Asset	Liability	Asset	Liability
MIK Holding JSC	2,169,173,333	2,050,414,508	893,948,818	847,669,235
MG Leasing LLC	44,533,672	42,948,511	38,667,409	35,584,559
JCDecaux Mongolia LLC	5,237,585	231,054	2,950,717	179,698

	2015 MNT'000		2014 MNT'000	
Investees	Operating revenue	Net income	Operating revenue	Net income
MIK Holding JSC	125,506,745	35,564,536	41,853,869	12,105,535
MG Leasing LLC	3,417,093	(1,649,657)	1,423,650	(75,274)
JCDecaux Mongolia LLC	1,448,209	296,503	371,448	85,254

8 Loans and advances

	2015 MNT'000	2014 MNT'000
Loans and advances to customers	2,713,765,929	2,804,731,400
Loans to executives, directors and staff	29,354,297	31,199,375
	2,743,120,226	2,835,930,775
Allowance for loan losses	(98,140,610)	(58,742,342)
	2,644,979,616	2,777,188,433

Movements in the allowance for loan losses for the years ended 31 December 2015 and 2014 were as follows:

	2015 MNT'000	2014 MNT'000
At 1 January	58,742,342	18,042,005
Provision for the year, net	44,573,901	40,700,337
Written off	(5,175,633)	-
At 31 December	98,140,610	58,742,342

In addition, the Group transferred its mortgage loans with carrying amounts of MNT 234,396,500 thousand and MNT 175,275,267 thousand during 2015 and 2014 to MIK SPCs. This transaction qualified for derecognition.

9 Bills purchased under resale agreements

Contract party	Sold date	Maturity	Interest rate	2015 MNT'000	2014 MNT'000
Development Bank of Mongolia	16 Oct 2015	14 Apr 2016	6.1%	99,799,000	-

The Group entered into resale agreement with Development Bank of Mongolia, where the Group purchased BOM treasury bill at an aggregate amount of MNT 99,799,000 thousand. The security purchased are collateralised for the receivables pertaining to the agreement.

10 Subordinated loans

	2015 MNT'000	2014 MNT'000
UB City Bank	4,000,000	4,000,000

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

11 Property and equipment

Property and equipment as at 31 December 2015 and 2014 were as follows:

31 December 2015
(In MNT'000)

	Buildings	Office equipment and motor vehicles	Computers and others	Construction-in-progress	Total
At cost/revaluation					
At cost	121,641,188	11,122,186	19,206,522	4,572,154	156,542,050
At revaluation	153,645,983	-	-	-	153,645,983
At 1 January 2015	275,287,171	11,122,186	19,206,522	4,572,154	310,188,033
Additions	2,925,186	2,760,692	2,129,077	1,686,319	9,501,274
Disposals	(11,382,083)	(720,827)	(1,069,865)	-	(13,172,775)
Write-offs	(6,199,587)	(25,038)	(81,058)	-	(6,305,683)
Reclassification(*1)	(61,460,406)	-	-	-	(61,460,406)
Revaluation surplus	(19,267,025)	919,916	-	-	(18,347,109)
At 31 December 2015	179,903,256	14,056,929	20,184,676	6,258,473	220,403,334
Measured at:					
Cost	44,604,382	14,056,929	20,184,676	6,258,473	85,104,460
Revaluation	135,298,874	-	-	-	135,298,874
	179,903,256	14,056,929	20,184,676	6,258,473	220,403,334
Accumulated depreciation					
At 1 January 2015	610,285	3,258,548	8,276,932	-	12,145,765
Charge for the year	5,107,018	1,075,920	4,226,842	-	10,409,780
Disposals	(157,638)	(556,127)	(1,068,851)	-	(1,782,616)
Write-offs	(4,926,183)	-	(99)	-	(4,926,282)
Reclassification(*1)	(328,090)	-	-	-	(328,090)
At 31 December 2015	305,392	3,778,341	11,434,824	-	15,518,557
Carrying amounts					
At 31 December 2015	179,597,864	10,278,588	8,749,852	6,258,473	204,884,777

(*1) Portion of the Group's office building is reclassified to investment property. Building reclassified to investment property is MNT 61,132,316 thousand.

11 Property and equipment (continued)

31 December 2014
(In MNT'000)

	Buildings	Office equipment and motor vehicles	Computers and others	Construction-in-progress	Total
At cost/revaluation					
At cost	11,765,120	8,919,007	11,516,392	112,274,587	144,475,106
At revaluation	18,555,196	-	-	-	18,555,196
At 1 January 2014	30,320,316	8,919,007	11,516,392	112,274,587	163,030,302
Additions	17,143	2,218,719	8,161,836	10,176,853	20,574,551
Disposals	(5,896,963)	(166,941)	(525)	-	(6,064,429)
Write-offs	-	(153,899)	(509,598)	-	(663,497)
Reclassification	117,840,869	-	38,417	(117,879,286)	-
Acquisition of subsidiary	-	305,300	-	-	305,300
Revaluation surplus	133,005,806	-	-	-	133,005,806
At 31 December 2014	275,287,171	11,122,186	19,206,522	4,572,154	310,188,033
Measured at:					
Cost	123,726,169	11,122,186	19,206,522	4,572,154	158,627,031
Revaluation	151,561,002	-	-	-	151,561,002
	275,287,171	11,122,186	19,206,522	4,572,154	310,188,033
Accumulated depreciation					
At 1 January 2014	1,644,423	2,558,588	5,529,965	-	9,732,976
Charge for the year	1,050,843	882,413	3,255,498	-	5,188,754
Disposals	-	(125,263)	(291)	-	(125,554)
Write-offs	-	(57,190)	(508,240)	-	(565,430)
Revaluation surplus	(2,084,981)	-	-	-	(2,084,981)
At 31 December 2014	610,285	3,258,548	8,276,932	-	12,145,765
Carrying amounts					
At 31 December 2014	274,676,886	7,863,638	10,929,590	4,572,154	298,042,268

Construction-in-progress account mainly consists of costs for construction of the Group's office building and branch buildings. The construction of the Group's office building commenced during the second quarter of 2011 and was completed during the fourth quarter of 2014. There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2014.

11 Property and equipment (continued)

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

Date of valuation	Description of property	Basis of valuation
31 October 2008	Buildings	Market value
31 December 2011	Buildings	Market value
30 June 2014	Buildings	Market value
31 December 2014	Buildings	Market value
31 December 2015	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 ㎡); land ownership: 20 ~ 1,100 buildings: 300 ~ 8,000 apartments: 1,573 ~ 2,648	The estimated fair value would increase (decrease) if: Expected market price for proxy land ownership, buildings, apartments were higher (lower)

12 Intangible assets and goodwill

	2015 MNT'000	**2014 MNT'000**
Cost		
At 1 January	8,269,780	7,276,387
Additions		
Software	680,125	993,393
At 31 December	8,949,905	8,269,780
Amortisation and impairment losses		
At 1 January	3,727,314	3,005,772
Amortisation charge for the year(*1)	969,647	721,542
Impairment loss(*2)	2,803,205	-
At 31 December	7,500,166	3,727,314
Carrying amounts		
At 31 December	1,449,739	4,542,466

(*1) Amortisation is charged for software only.
(*2) Impairment loss is charged for goodwill only.(Note 30)

13 Investment property

	2015 MNT'000	2014 MNT'000
At 1 January	33,689,000	33,388,245
Reclassification from property and equipment	61,132,316	-
Change in fair value	4,967,684	300,755
At 31 December	99,789,000	33,689,000

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

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

There is no transfer to or from level 3 of investment property during 2015 and 2014.

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: 5,867 ~ 8,000	The estimated fair value would increase (decrease) if: Expected market price for proxy buildings were higher (lower)

14 Foreclosed real properties

	2015 MNT'000	2014 MNT'000
Industrial buildings	11,409,870	8,674,026
Less: Allowances	(10,039,060)	(7,653,572)
	1,370,810	1,020,454

Properties acquired through foreclosure are initially recognised at fair value, recorded as foreclosed properties and are held for sale. The allowance is subsequently estimated in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the President of BOM and Ministry of Finance. Such a model classifies the Group's foreclosed properties based on time characteristics and makes allowances at the rates of 1%, 5%, 25%, 50% and 100% for credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. On 26 August 2014, BOM Provisioning Guidelines revised and requires the Group to recognize 1% (previously 0% was applied) allowance for performing assets created on or after 27 August 2014. During 2015 and 2014, an allowance of MNT 135,000 thousand and MNT 544,869 thousand were written back upon recovery of foreclosed real properties, respectively, and foreclosed real properties were not written off against impairment losses.

15 Other assets

	2015 MNT'000	2014 MNT'000
Precious metals	639,614	23,396
Accrued interest receivables	99,680,366	64,312,329
Prepayment	18,413,050	28,990,939
Inventory supplies	1,498,486	1,144,697
Spot trading receivables	104,719,018	151,552,920
Derivative assets for trading	34,642,718	59,225,754
Hedging instruments(*1)(*2)(*3)	66,333,362	-
Domestic exchange settlement receivables	3,781,011	3,314,679
Other receivables, net(*4)	3,840,249	2,454,055
	333,547,874	311,018,769

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

	2015 MNT'000	2014 MNT'000
Beginning balance	-	-
Deferral	91,459,139	-
Amortisation(*)	(11,615,462)	-
Ending balance	79,843,677	-

(*) Amortisation of deferred gains were recognised as other comprehensive income for the year ended 31 December 2015, in connection with cash flow hedge, as the effective portion of change in fair value of the derivative.

(*2) The Group applied cash flow hedges by using derivatives (FX swaps) to hedge the foreign currency risks arising from its issuance of notes denominated in USD.

(*3) Changes in other comprehensive income recognised as effective portion of cash flow hedge for the years ended 31 December 2015 and 2014 were as follows:

	2015 MNT'000	2014 MNT'000
Beginning balance	-	-
Increase	66,333,362	-
Reclassification(*)	(26,395,000)	-
Ending balance	39,938,362	-

(*) Valuation gain which were reclassified to profit or loss for the years ended 31 December 2015 and 2014. The recognised amount of the ineffective portion of the gain or loss on the hedging instruments is nil. The Group expects that the period when derivative contracts designated as a cash flow hedge are exposed to cash flow volatility risk as at 31 December 2015, will be up until 29 April 2020.

(*4) Other receivables are presented net of impairment losses amounting to MNT 36,741 thousand and MNT 20,089 thousand as at 31 December 2015 and 31 December 2014, respectively.

16 Deposits from customers

	2015 MNT'000	2014 MNT'000
Current accounts	705,643,603	1,004,054,802
Savings deposits	293,612,096	248,055,468
Time deposits	1,173,232,888	1,256,713,708
Other deposits	37,464,876	24,783,023
	2,209,953,463	2,533,607,001

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 1.51% and 3.18% (2014: 1.43% and 3.21%) per annum for foreign and local currency accounts, respectively.

Foreign and local currency savings deposits bear interest at a rate of approximately 1.95% and 6.59% (2014: 1.95% and 6.07%), respectively.

Foreign and local currency time deposits bear interest at a rate of approximately 6.50% and 13.78% (2014: 6.53% and 12.33%), respectively.

17 Deposits and placements by banks and other financial institutions

	2015 MNT'000	2014 MNT'000
Current accounts deposits:		
Foreign currency deposits	11,812,893	10,530,372
Local currency deposits	815,763	288,230
Foreign currency cheques for selling	3,689	730,962
Deposits from banks	100,122,627	108,457,772
	112,754,972	120,007,336

18 Bills sold under repurchase agreements

Contract party	Sold date	Maturity	Interest rate	2015 MNT'000	2014 MNT'000
Bank of Mongolia	16 Oct 2015	14 Apr 2016	5.0%	99,799,000	-

The Group entered into repurchase agreement with BOM, the agreement where the Group sold BOM treasury bills and government bonds under repurchase agreement at an aggregate amount of MNT 99,799,000 thousand, at 14 April 2016. The securities sold are collateralised for the payables pertaining to the agreement.

19 Borrowings

	2015 MNT'000	2014 MNT'000
Kreditanstalt fuer Wiederaufbau	6,212,256	7,376,738
World Bank	1,541,910	2,190,033
Asian Development Bank	1,217,820	1,398,355
International Development Association	977,505	946,075
Export-Import Bank of Korea	14,155,757	19,010,350
Export-Import Bank of Republic of China	4,739,314	4,915,210
Japan International Cooperation Agency	24,122,817	20,145,126
Atlantic Forfaitierungs AG	7,789,578	1,508,480
SME Fund, Ministry of Industry	39,798,757	56,889,870
Commerzbank AG	62,009,771	32,665,739
ING Bank	6,640,160	1,550,718
Baoshang Bank	-	1,491,389
Sumitomo Mitsui Banking Corporation	45,077,031	50,901,247
Netherlands Development Finance Company	16,633,167	18,856,000
Mongolian Stock Exchange syndicated facility	-	1,168,921
Bank of Mongolia	45,946,900	253,139,645
Development bank of Mongolia	168,211,079	38,916,400
Mortgage Financing Programme by BOM	132,030,609	182,426,909
MG Leasing Corporation	9,831,718	23,494
Russian Agricultural Bank	23,951,760	16,970,400
TDB Syndicated Facility	78,693,375	151,687,229
Cargill TSF Asia Pte.Ltd	49,546,647	41,045,184
Cargill Financial Services International, Inc	170,232,486	131,992,000
Bank of Tokyo-Mitsubishi UFJ	5,821,172	24,217,372
Khan Bank (syndicated loan source)	-	45,109,209
China Trade Solutions	648,208	-
Exim Bank of Russia	6,960,142	-
Erste Group Bank	9,980,723	-
Banca Popolare Di Sondrio	13,447,660	-
Banco Popular Espanol	757,543	-
UBI Banca	141,693	-
OPEC Fund for International Development	49,174,766	-
Japan Bank of International Cooperation	5,541,940	-
Industrial and Commercial Bank of China	10,058,476	-
Agricultural bank of China	461,312	-
Other	40,037	786,871
	1,012,394,089	1,107,328,964

19 Borrowings (continued)

Kreditanstalt fuer Wiederaufbau ("KfW")

(a) In 1997, the Group entered into Financing Agreement with KfW through Bank of Mongolia, under which the Group can borrow equivalent up to EUR 4,345,981 from KfW via BOM, in EUR and MNT as a Programme-Executing Agency for mainly providing financing to various small and medium enterprises customers at preferential interest rates. The outstanding KfW loan amounted to EUR 2,456,461 (MNT 5,361,717 thousand) and EUR 3,216,563 (MNT 7,376,738 thousand) at 31 December 2015 and 2014, 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 850,539 thousand at 31 December 2015. The MNT loan bears interest at a rate equal to the BOM's Policy rate. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

World Bank

(a) In 2006, the Group entered into the TDB Subsidiary Loan Agreement with World Bank, under which the Group can borrow up to USD 4,000,000 from the World Bank via the Ministry of Finance to finance the Second Private Sector Development Project through the provision of sub-loans. The outstanding World Bank USD loan amounted to USD 320,000 (MNT 638,713 thousand) and USD 512,000 (MNT 965,427 thousand) at 31 December 2015 and 2014, respectively. The loan bears interest at six-month London Inter-Bank Offering Rate ("LIBOR") USD rate plus a margin of 1% per annum. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

(b) Under the TDB Subsidiary Loan Agreement as described in (a) above, the Group can also borrow amounts in various currencies including in MNT up to Special Drawing Rights (SDR) 6,250,000 from the World Bank via the Ministry of Finance to finance specific investment projects through the provision of sub-loans. The outstanding World Bank MNT loan amounted to MNT 534,000 thousand and MNT 838,000 thousand at 31 December 2015 and 2014, respectively. The loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(c) In 2006, the Group obtained a USD loan in the amount of USD 300,000 from the World Bank under the World Bank Training Assistance Programme loan via the Ministry of Finance for the purpose of financing the Group's implementation of institutional development programme, including staff training in the areas of credit analysis and risk assessment and risk-based internal auditing. The outstanding World Bank loan under this programme amounted to USD 184,970 (MNT 369,197 thousand) and USD 205,031 (MNT 386,606 thousand) at 31 December 2015 and 2014, 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.

19 Borrowings (continued)

Asian Development Bank ("ADB")

(a) In 1999, the Group obtained a USD loan in the amount of USD 134,164 from ADB via BOM to upgrade the Group's accounting information systems. The outstanding loan amounted to USD 71,554 (MNT 142,820 thousand) and USD 76,026 (MNT 143,355 thousand) at 31 December 2015 and 2014, respectively. The loan matures in 2031 and bears interest at a fixed rate of 1% per annum and is repayable in 30 annual installments which commenced in 2002.

(b) In 2011, the Group entered into a Finance Agreement with ADB, under which the Group can borrow up to USD 11,000,000 from ADB via the Ministry of Finance to provide loans exclusively to customers who need to finance the cost of goods, works, and consulting services required to carry out Value Chain Development ("VCD") subprojects related to the development of agriculture and rural areas. The sub-loan matures in June 2018 and bears interest at a fixed rate of up to 12% per annum. The Group can also borrow in MNT. The outstanding MNT loan amounted to MNT 1,075,000 thousand and MNT 1,255, 000 thousand as at 31 December 2015 and 2014, respectively. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

International Development Association ("IDA")

In 1998, the Group obtained a USD loan in the amount of USD 600,000 from IDA to finance the Twinning Agreement with Norwegian Banking Resources Ltd. ("NBR"), under which NBR had transferred operational knowhow and technical skills to the Group. The outstanding IDA loan amounted to USD 489,737 (MNT 977,505 thousand) and USD 501,737 (MNT 946,075 thousand) at 31 December 2015 and 2014, respectively. The loan bears interest at a fixed rate of 1% per annum. Principal repayments commenced in August 2007 with the final repayment due in February 2037.

Export-Import Bank of Korea ("KEXIM")

In 2004, the Group entered into the Comprehensive Interbank Export Credit Agreement with KEXIM under which the Group can borrow up to USD 2,000,000 for relending purposes to finance customers who purchase goods from Korean exporters. Effective July 2012, the maximum amount of facility increased to USD 30,000,000. The outstanding borrowings under this line of credit agreement amounted to USD 7,092,134 (MNT 14,155,757 thousand) and USD 10,081,857 (MNT 19,010,350 thousand) at 31 December 2015 and 2014, respectively. The interest of this particular loan varies with each drawdown, which is determined by KEXIM. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

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

In 2004, the Group entered into a Relending facility with TEXIM under which the Group 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 2,374,430 (MNT 4,739,314 thousand) and USD 2,606,709 (MNT 4,915,210 thousand) at 31 December 2015 and 2014, 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.

19 Borrowings (continued)

Japan International Cooperation Agency ("JICA")

(a) In 2006, the Group entered into a Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT loans up to the amount equivalent to JPY 2,981,000,000 from JICA via the Ministry of Finance which was channeled to various borrowers for the purpose of Small and Medium-Scaled Enterprises ("SME") Development and Environmental Protection. The outstanding USD loan amounted to USD 155,500 (MNT 310,375 thousand) and USD 224,500 (MNT 423,317 thousand) at 31 December 2015 and 2014, 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 2,343,580 thousand and MNT 2,667,600 thousand at 31 December 2015 and 2014, respectively. The MNT loan bears interest at a rate equal to the average rate for MNT demand deposits published by BOM for the preceding twelve months. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(c) In 2011, the Group entered into another Loan Financing Agreement with JICA, under which the Group can borrow USD or MNT loans up to the amount equivalent to JPY 5,000,000,000 from JICA via the Ministry of Finance which was channeled to various borrowers for the second phase of developing SME Development and Environmental Protection purposes. The outstanding loans amounted to USD 1,238 500 (MNT 2,472,021 thousand) and MNT 18,996,841 thousand at 31 December 2015, and USD 930,000 (MNT 1,753,608 thousand) and MNT 15,300,601 thousand at 31 December 2014. 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 Group entered into a Facility Agreement with AF for the purpose of relending to customers participating in a plantation support fund. The outstanding USD loans amounted to USD 3,902,633 (MNT 7,789,578 thousand) and USD 800,000 (MNT 1,508,480 thousand) at 31 December 2015 and 2014, respectively. The interest rate of this particular loan varies with each drawdown which is determined by AF. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

19 Borrowings (continued)

SME Fund, Ministry of Industry

(a) In 2009, the Group entered into a credit facility loan agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of SME development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 30 billion for this facility which is available to all Mongolian commercial banks with no specific set amount allocated to individual banks. In 2010 and 2011, the Group renewed this facility agreement, and the aggregate budget increased to MNT 60 billion and MNT 150 billion, respectively. 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 under this credit facility amounted to MNT 6,994,653 thousand and MNT 12,042,999 thousand at 31 December 2015 and 2014, respectively. In 2013, the Group signed a new facility agreement with the Ministry of Industry within the above mentioned credit program. This credit facility expires in December 2017 and bears interest at a fixed rate of 1.8% per annum depending on the finances of Development Bank of Mongolia. The outstanding borrowings under this credit facility amounted to MNT 2,908,808 thousand and MNT 4,102,203 thousand at 31 December 2015 and 2014, respectively.

(b) In October 2011, the Group signed a second credit facility agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of Wool and Cashmere sector development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 150 billion for this facility. The loan bears interest at a fixed rate of 0.6% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to MNT 25,670,596 thousand and MNT 37,110,898 thousand at 31 December 2015 and 2014, respectively. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(c) In August 2014, the Group entered into a loan agreement with the Ministry of Industry for the purpose of SME development within the encouraging export and substituting import program (888 Project). Projects with amount is less than MNT 2.0 billion were implemented by SME Fund, Ministry of Industry and financed by Development bank of Mongolia. The outstanding borrowings amounted to MNT 4,224,700 thousand and MNT 3,633,770 thousand at 31 December 2015 and 2014, respectively. The loan bears interest at a fixed rate of 3.0% per annum. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Commerzbank AG

In 2011, the Group entered into an Uncommitted Bilateral Trade Finance Facility Master Agreement with Commerzbank AG for the purpose of relending to customers to finance import and export transactions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. Under this facility agreement, the Group has outstanding loans of USD 27,640,512 (MNT 55,169,909 thousand) and EUR 3,133,670 (MNT 6,839,862 thousand) at 31 December 2015, and USD 14,859,416 (MNT 28,018,915 thousand) and EUR 2,026,208 (MNT 4,646,824 thousand) at 31 December 2014. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

19 Borrowings (continued)

ING Bank

In 2011, the Group obtained a trade finance line with ING Bank under which the Group can borrow up to EUR 15,000,000 for relending purposes or confirmations of letter of credit(LC). The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. Under this trade finance facility, the Group has outstanding loans of USD 1,538,576 (MNT 3,070,966 thousand) and EUR 1,635,220 (MNT 3,569,194 thousand) at 31 December 2015 and USD 822,400 (MNT 1,550,718 thousand) at 31 December 2014, respectively. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Baoshang Bank

The Group entered into various facility agreements with Baoshang Bank, under which the Baoshang Bank loans were extended to other borrowers.

The outstanding Baoshang Bank loan amounted to CNY 4,912,832 (MNT 1,491,389 thousand) at 31 December 2014, the principal and interest were fully repaid in April 2015.

Sumitomo Mitsui Banking Corporation ("SMBC")

In March 2012, the Group entered into a Refinancing Letter of Credit Facilities Agreement with SMBC under which the Group can borrow up to USD 55,000,000 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 SMBC loan amounted to USD 8,590,079 (MNT 17,145,627 thousand), EUR 12,316 (MNT 26,882 thousand) and JPY 1,683,023,031 (MNT 27,904,522 thousand) at 31 December 2015 and USD 21,524,710 (MNT 40,586,993 thousand) and JPY 655,289,300 (MNT 10,314,254 thousand) at 31 December 2014, respectively. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Netherlands Development Finance Company (“FMO”)

In June 2012, the Group entered into a Senior Term Facility Agreement with FMO under which the Group can borrow up to USD 10,000,000 which shall be used for relending purposes for small and medium entities. The outstanding USD loan amounted to USD 8,333,333 (MNT 16,633,167 thousand) and USD 10,000,000 (MNT 18,856,000 thousand) at 31 December 2015 and 2014. The Group has an option to pay interest at a fixed or floating interest rate. The facility is repayable semi-annually until final repayment due in April 2018.

Mongolian Stock Exchange syndicated facility

The Group arranged a syndicated Loan to Mongolian Stock Exchange with participation of Mongolian commercial banks. At 31 December 2014, the Group has arranged the following loans under this facility:

(a) Total participation of commercial banks loan amount is USD 619,920 (MNT 1,168,921 thousand) at 31 2014. The repayment dates for this loan varied in accordance to the tenor of loans granted to the various borrowers.

(b) This loan was fully repaid in May 2015.

19 Borrowings (continued)

Bank of Mongolia

Since 2012, the Group has continued to act as a participant bank within the relending agreement with the Bank of Mongolia Midterm Sub-programme named "To stabilise price of basic commodities and products" consists of four sub programs: i) price stability of staple food; ii) fuel retail price stability; iii) reducing the cost of imported consumption goods; and iv) promoting the construction sector and achieving stability of housing prices. In 2014, the Group signed a new credit facility agreement with the Bank of Mongolia for the purpose of Cashmere Industry support. This credit facility agreement bears interest at a fixed rate of 6.0% to 9.5% per annum with varying repayment dates depending on the draw date. Within the above sub programs total of over 51 borrowers have successfully taken out loans at flexible conditions that were provided by the programme; the outstanding loan amounted to MNT 45,946,900 thousand and MNT 253,139,645 thousand at 31 December 2015 and 2014, respectively. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Development Bank of Mongolia

(a) In July 2014, the Group entered into a credit facility loan agreement with the Development Bank of Mongolia for the purpose of supporting raw leather purchase and commodity manufacturing. This credit facility bears interest at a fixed rate of 5.0% per annum with varying repayment dates depending on the draw date. Within this program, 9 sub borrowers were financed successfully in 2014 and 2015. The outstanding borrowings under this credit facility amounted to MNT 3,650,250 thousand and MNT 2,830,000 thousand at 31 December 2015 and 2014, respectively. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) In July 2014, the Group entered into a loan agreement with the Development Bank of Mongolia for the purpose of larger project support within the encouraging export and substituting import program (888 Project). Projects with amount of more than MNT 2.0 billion were implemented and financed by Development Bank of Mongolia. The outstanding borrowings amounted to MNT 60,523,800 thousand and MNT 36,086,400 thousand at 31 December 2015 and 2014, respectively. The loan bears interest at a fixed rate of 5.0% per annum. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(c) In June 2015, the Group entered into a trilateral credit facility agreement with Development Bank of Mongolia and SME Fund, Ministry of Industry for the purpose of encouraging export and substituting import, creating working place. This program were 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 draw date. The outstanding borrowings amounted to MNT 9,500,066 thousand at 31 December 2015.

(d) In Jun 2015, the Group signed a new credit facility agreement with the Development Bank of Mongolia for the purpose of supporting manufacturers and processors of cashmere. Development Bank of Mongolia budgeted MNT 100 billion for this facility. This credit facility bears interest at a fixed rate of 6.0% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to MNT 6,000,000 thousand at 31 December 2015.

(e) In September 2015, the Group signed a new credit facility agreement with the Development Bank of Mongolia for the purpose of encouraging export and substituting import within the target of industrialization supporting. Development Bank of Mongolia budgeted MNT 300 billion for this facility. This credit facility bears interest at a fixed rate of 6.0% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to MNT 2,000,000 thousand at 31 December 2015.

19 Borrowings (continued)

Development Bank of Mongolia (continued)

(f) In September and December 2015, the Group signed new credit facility agreements with the Development Bank of Mongolia for the purpose of financing ASEM(Asia-Europe Meeting) Villa project and hotel, building for ASEM. Development bank of Mongolia budgeted MNT 275 billion for above facilities. The loan bears interest at a fixed rate of 4.5% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facilities amounted to MNT 86,536,963 thousand at 31 December 2015.

Mortgage Financing Programme by BOM

In 2013, the Group entered into credit facility loan agreement titled "Mortgage financing from Bank of Mongolia provided to banks" with Bank of Mongolia. The intended purpose is to support the middle class and support the long-term sustainable economic growth by increasing the savings of the middle class. The outstanding Bank of Mongolia loan amounted to MNT 132,030,609 thousand and MNT 182,426,909 thousand at 31 December 2015 and 2014, respectively. The loan bears interest at a fixed rate of 4.00% per annum with varying repayment dates depending on the draw date.

MG Leasing Corporation

In September 2013, the Group entered into a USD 1,000,000 Facility Agreement with MG Leasing Corporation under which the Group utilize the facility to on-lend the proceeds to Mongolian knitting companies which are purchasing machines from Shima Seiki MFG Ltd. and the loan was fully repaid in September 2015. In December 2015, the Group entered into a Term Loan Agreement for the facility of USD 5,000,000. The outstanding loan amounted to USD 4,925,760 (MNT 9,831,718 thousand) and USD 12,460 (MNT 23,494 thousand) at 31 December 2015 and 2014, respectively. The interest of this particular loan varies with each drawdown which is determined by MG Leasing Corporation. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Russian Agricultural Bank ("RHB")

RHB approved a trade finance limit in 2009, for the purpose of relending to the customer. In January 2014 and October 2015 , the Group entered into Loan Agreement of USD 9,000,000 and USD 12,000,000 with maturities of January 2015 and April 2016, respectively. The outstanding loan amounted to USD 12,000,000 (MNT 23,951,760 thousand) and USD 9,000,000 (MNT 16,970,400 thousand) at 31 December 2015 and 2014, respectively.

TDB Syndicated Facility

In September 2013, the Group entered into A/B Syndicated Term Facility Agreement with Netherlands Development Finance Company (FMO). The syndicated term facility of USD 82,000,000 comprised of development tranche ('A' loan) of USD 35,000,000 arranged by FMO and joined by International Investment Bank and of commercial tranche ('B' loan) of USD 47,000,000 arranged by ING Bank N.V. and TDB Capital LLC. The 'B' loan participations were received from AKA Ausfuhrkredit, Bank of Tokyo-Mitsubishi UFJ, Ltd., VTB Moscow, Commerzbank, Atlantic Forfaitierungs, MG Leasing Corporation and Chailease Group. The proceeds of the Facility will be used to finance general funding requirements of TDB including on-lending to its customers. The principal is payable in accordance with the facility agreement and the interest is repayable semi-annually until final repayment due in September 2018. The rate of interests on each loan is the percentage rate per annum, which is the aggregate of the applicable margin and LIBOR. The outstanding loan amounted to USD 39,425,933 (MNT 78,693,375 thousand) and USD 80,445,073 (MNT 151,687,229 thousand) at 31 December 2015 and 2014, respectively.

19 Borrowings (continued)

Cargill TSF Asia Pte. Ltd

Since May 2014, the Group entered into a trade related loan agreement under which the Group financed import of goods amounted to USD 24,823,218 (MNT 49,546,647 thousand) and USD 21,767,705 (MNT 41,045,184 thousand) at 31 December 2015 and 2014, respectively. The interest of this particular loan varies with each drawdown which is determined by Cargill TSF Asia Pte. Ltd. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Cargill Financial Services International, Inc

In December 2014, May 2015 and November 2015 the Group entered into a Trade related Loan Agreement under which the Group for financing of import of goods for the total amount of USD 25,000,000, USD 8,800,000 and 51,500,000 with tenor of 2 years, respectively. The outstanding loan amounted to USD 85,287,671 (MNT 170,232,486 thousand) and USD 70,000,000 (MNT 131,992,000 thousand) at 31 December 2015 and 2014, respectively. The interest of this particular loan varies with each drawdown which is determined by Cargill financial services international, INC.

Bank of Tokyo-Mitsubishi UFJ

In March 2014, the Group obtained USD 25,000,000 trade finance facility for LC confirmation and LC refinancing for its customers business. The outstanding loan amounted to USD 2,916,448 (MNT 5,821,172 thousand) as at 31 December 2015 and USD 9,185,106 (MNT 17,319,437 thousand) and JPY 438,242 thousand (MNT 6,897,935 thousand) as at 31 December 2014. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Khan Bank (syndicated loan source)

In September 2014, the Group entered into a USD 25,000,000 loan agreement with Khan Bank. The Group lent a loan to our customer and Khan bank joined us on this loan. This borrowing is a syndicated loan source co-lent with Khan Bank to our customer. The principal and interest payments were fully repaid in August 2015.

China Trade Solutions

The Group entered into a Short-Term Trade Finance Facilities Agreement with China Trade Solutions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The outstanding China Trade Solutions loan amounted to USD 324,757 (MNT 648,208 thousand) as at 31 December 2015.

Exim Bank of Russia (“Rosexim Bank”)

In September 2015, the group entered into Interbank Loan Agreement with Rosexim Bank for the purpose of relending to the customer. The outstanding loan amounted to USD 3,487,080 (MNT 6,960,142 thousand) as at 31 December 2015, which matures in 15 April 2016.

19 Borrowings (continued)

Erste Group Bank

The Group entered into "Master Forfaiting Agreement" for total amount of EUR 5.0 million with Erste Group Bank in February 2015 which enabled us to provide import financing to our customers engaged with 13 countries of East Europe. Under this facility agreement, the Group has outstanding loans of EUR 4,572,650 (MNT 9,980,723 thousand) as at 31 December 2015. The interest of this particular loan varies with each drawdown which is determined by Erste Group Bank. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Banca Popolare Di Sondrio

Since October 2015, Banca Popolare Di Sondrio, Italy has been offering post import financing on Italy and non-Italy deals. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The Group has outstanding loans of USD 6,573,272 (MNT 13,120,119 thousand) and EUR 150,062.44 (MNT 327,541 thousand) at 31 December 2015. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Banco Popular Espanol

Banco Popular Espanol has been cooperating trade related deals related to Spanish beneficiaries on case by case basis since September 2015. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The Group has outstanding loans of EUR 347,067 (MNT 757,543 thousand) at 31 December 2015. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

UBI Banca

Since November 2015, UBI Banca, Italy has been offering post import financing to Italy originated imports from TDBM. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The Group has outstanding loans of USD 43,562 (MNT 86,948 thousand) and EUR 25,081 (MNT 54,745 thousand) at 31 December 2015. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

OPEC Fund for International Development ("OFID")

In August 2015, the Group entered into a Trade Finance Term Loan Agreement with The OFID under which the Group borrowed USD 25,000,000 which shall be used for supporting local corporates and SMEs for their foreign trade finance requirements. The outstanding loan amounted to USD 24,636,903 (MNT 49,174,766 thousand) at 31 December 2015. The interest of the facility is repayable semi-annually until final repayment due in October 2018 and the principal is repayable at the maturity of the facility.

19 Borrowings (continued)

Japan Bank of International Cooperation ("JBIC")

In 2013, the Group entered into On-lending agreement with Ministry of Finance based on the Export Credit Line Agreement made between Japan Bank of International Cooperation and Mongolian Government in 2013, for the purpose of financing the equipment, machineries, goods and services produced by Japanese exporters. The group can obtain JPY and USD loans up to the total financing amount of JPY 8 billion. The outstanding loan amounted to JPY 334,254,552 (MNT 5,541,940 thousand) at 31 December 2015. The loan matures in May 2018 and bears base interest at a rate of 3.35%.

Industrial and Commercial Bank of China

In 2010, the Group entered into a Relending facility agreement with ICBC for relending purposes to finance its customers. The outstanding loan under the agreement amounted to USD 245,454 (MNT 489,921 thousand) and CNY 31,113,205 (MNT 9,568,555 thousand) at 31 December 2015. For each drawdown, applicable interest rate, disbursement date and repayment date shall be agreed with ICBC on a case by case basis. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Agricultural Bank of China

In 2011, the Group entered into an Import Financing Agreement which enables the Group to finance its customers for import goods. The outstanding loan amounted to CNY 1,500,000 (MNT 461,312 thousand) at 31 December 2015. The loan bears interest at a fixed rate of 6.96% per annum. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

20 Debt securities issued

	2015 MNT'000	2014 MNT'000
Debt securities issued, at amortised cost	1,175,921,345	741,354,845

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

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

During 2015 and 2014, the respective debt securities accreted by MNT 7,840,740 thousand and MNT 4,371,907 thousand, respectively, using the effective interest method.

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

21 Subordinated debt securities issued

	2015 MNT'000	2014 MNT'000
Subordinated debt, at amortised cost	29,939,700	75,351,569

On 24 May 2011 and 27 June 2012, the Group issued USD 5,000,000 and USD 10,000,000 subordinated notes due on 25 May 2016 and 6 June 2017 at face value, both of which are payable semi-annually, respectively.

The Group is also obligated to bear withholding tax in addition to the interest expenses paid to certain investors on its subordinated notes in accordance with the double tax treaty between Mongolia and related country, and these additional cash outflows effectively increase actual interest rates for the notes. The above liabilities will, in the event of the winding-up of the Group, be subordinated to the claims of depositors and all other creditors of the issuer.

During 2015 and 2014, the respective debt securities accreted by MNT 76,671 thousand and MNT 73,305 thousand, respectively, using the effective interest method.

22 Other liabilities

	2015 MNT'000	2014 MNT'000
Accrued interest payables	73,107,803	77,929,712
Delay on clearing settlement	5,990,901	5,240,100
Spot trading payables	104,718,936	151,588,485
Derivative liabilities for trading	27,904,044	27,643,093
Finance lease payable	2,642,334	2,547,397
Domestic exchange obligation payables	3,540,888	4,017,091
Others	13,098,306	10,185,280
	231,003,212	279,151,158

23 Share capital

	Number of ordinary shares		2015	2014
	2015	2014	MNT'000	MNT'000
At 1 January	3,305,056	3,305,056	16,525,280	16,525,280
Issued during the year	-	-	33,474,731	-
At 31 December	3,305,056	3,305,056	50,000,011	16,525,280

At 31 December 2015 and 2014, 3,305,056 shares were issued and outstanding out of a total 4,000,000 authorised shares. The Group increased its share capital from MNT 16,525,280 thousand to MNT 50,000,011 thousand by capitalisation of retained earnings. As at 31 December 2015 and 2014, all issued shares were fully paid and have a par value of MNT 15,128 and MNT 5,000, respectively. In connection with the capitalisation of retained earnings, the Group paid dividend withholding tax on behalf of the Group's shareholders, which shall be payable on distributions to shareholders. Such tax is recognised directly in equity as part of the distribution to shareholders. Dividend withholding tax directly recognised in equity for the year ended 31 December 2015 amounted to MNT 3,719,415 thousand.

24 Treasury shares

	2015 MNT'000	2014 MNT'000
At 1 January	2,620,626	2,620,626
Sale of treasury shares	(2,620,626)	-
At 31 December	-	2,620,626

The outstanding treasury shares were 126,015 shares, representing approximately 3.81% of the total issued and outstanding ordinary shares as at 31 December 2014. The Group disposed of all treasury shares to United Banking Corporation during the year ended 31 December 2015.

25 Accumulated other comprehensive income

	2015 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	(27,487,697)	-	153,645,983	126,158,286
Changes in fair value	(15,794,880)	-	7,943,000	(7,851,880)
Net unrealised gain on valuation of cash flow hedges	-	39,938,362	-	39,938,362
Changes due to disposal	19,451,448	-	(26,290,109)	(6,838,661)
Ending balance	(23,831,129)	39,938,362	135,298,874	151,406,107

	2014 MNT'000		
	Net change in fair value of available-for-sale financial assets	Revaluation reserves	Total
Beginning balance	14,153,606	18,555,196	32,708,802
Changes in fair value	(30,923,422)	135,090,787	104,167,365
Changes due to disposal	(10,717,881)	-	(10,717,881)
Ending balance	(27,487,697)	153,645,983	126,158,286

26 Interest income

	2015 MNT'000	2014 MNT'000
Loans and advances	340,982,730	341,764,426
Investment securities	166,998,538	92,676,705
Deposits and placements with banks and other financial institutions	20,769,389	9,647,043
Bills purchased under resale agreements	3,781,652	28,466
Subordinated loans	324,444	557,212
	532,856,753	444,673,852

27 Interest expense

	2015 MNT'000	2014 MNT'000
Deposits	156,722,952	158,385,845
Borrowings	66,412,474	57,008,785
Bills sold under repurchase agreements	3,181,170	1,727,844
Debt securities issued	126,082,205	70,632,094
Subordinated debt securities issued	6,121,875	8,734,761
	358,520,676	296,489,329

28 Net fee and commission income

	2015 MNT'000	2014 MNT'000
Fee and commission income		
Wire transfer	5,259,369	5,925,994
Card service	11,618,027	9,544,590
Loan related service	15,088,605	12,897,421
Others	3,199,376	2,340,987
Total fee and commission income	35,165,377	30,708,992
Fee and commission expenses		
Card service expense	4,313,008	2,470,633
Others	1,432,875	874,221
Total fee and commission expenses	5,745,883	3,344,854
Net fee and commission income	29,419,494	27,364,138

29 Other operating income (loss), net

	2015 MNT'000	2014 MNT'000
Foreign exchange gain (loss), net	(24,936,845)	11,644,029
Precious metal trading gain, net	272,783	47,991
Gain on disposition of securities	411,065	8,051,659
Valuation gain on investment property	4,654,281	300,755
Gain (Loss) on disposition of property and equipment	(1,777,788)	7,840,637
Others	6,184,046	2,997,919
	(15,192,458)	30,882,990

30 Operating expenses

	2015 MNT'000	2014 MNT'000
Personnel expense	30,008,387	27,060,835
Depreciation on property and equipment (note 11)	10,409,780	5,188,754
Amortisation of intangible assets (note 12)	969,647	721,542
Advertising and public relations	8,065,456	6,244,215
Rental expenses	4,555,035	3,785,370
Professional fees	3,036,016	2,050,790
Technical assistance and foreign bank remittance fees	1,619,185	2,859,663
Write-off of property and equipment	10,376,532	6,313
Insurance	5,601,473	9,168,938
Business travel expenses	1,649,807	1,223,971
Cash handling	438,994	832,087
Stationary and supplies	831,859	701,350
Communication	3,295,209	4,141,519
Training expenses	133,034	334,789
Utilities	772,310	531,416
Repairs and maintenance	866,483	317,270
Security	213,858	184,077
Meals and entertainment	579,921	788,065
Transportation	354,224	365,144
IT maintenance	1,397,618	1,272,486
Goodwill impairment(*1)	2,803,205	-
Others(*2)	3,439,639	1,007,350
	91,417,672	68,785,944

(*1) The Group impaired the goodwill, which was previously recognised in connection with the acquisition of TDB Media LLC in 2013, to nil for the year ended 31 December 2015.

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

31 Provision for impairment losses

	2015 MNT'000	2014 MNT'000
Provision for impairment losses for loans	(44,573,901)	(40,700,337)
Provision for impairment losses for other assets and foreclosed real properties	(2,402,138)	(4,049,176)
	(46,976,039)	(44,749,513)

32 Leases

The Group leases some of its branch offices under various lease agreements. Minimum lease commitments that the Group will pay under the non-cancelable operating lease agreements with initial terms of one year or more at 31 December 2015 and 2014 were as follows:

	2015 MNT'000	2014 MNT'000
Within a year	3,013,141	2,670,607
1 – 5 years	2,638,080	2,559,754
	5,651,221	5,230,361

33 Income tax expense

Recognised in the consolidated statements of comprehensive income:

	2015 MNT'000	2014 MNT'000
Income tax expense – current year	1,263,569	474,447

Reconciliation of effective tax expense:

	2015 MNT'000	2014 MNT'000
Profit before tax	62,738,857	93,981,611
Tax at statutory income tax rate (*1)	15,234,714	23,045,403
Tax effect of non-deductible expense	13,892,534	3,021,181
Tax effect of non-taxable income	(27,797,848)	(25,714,938)
Tax effect of income taxable on special tax rate (*2)	663,378	368,361
Effect of tax rates in subsidiaries	(738,851)	(237,764)
Other	9,642	(7,796)
	1,263,569	474,447

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

(*2) According to Mongolian Tax Laws, the Group is required to pay the special tax for certain type of taxable income.

34 Dividends

There were no dividends declared for the years ended 31 December 2015 and 2014.

35 Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand and unrestricted due from banks and other financial institutions with original maturities of less than three months. Cash and cash equivalents reported in the consolidated statements of cash flows for the years ended 31 December 2015 and 2014 were as follows:

	2015 MNT'000	2014 MNT'000
Cash and due from banks (note 5)	694,959,701	1,054,739,557
Balances with BOM restricted in use	(296,787,518)	(321,032,758)
Cash and cash equivalents	398,172,183	733,706,799

Details of significant non-cash activities for the years ended 31 December 2015 and 2014 were as follows:

	2015 MNT'000	2014 MNT'000
Investment properties transferred from property and equipment	61,132,316	-
Valuation gain on available-for-sale financial assets	3,656,568	41,641,303
Revaluation of property and equipment	7,943,000	135,090,787

36 Segment reporting

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

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

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

Operating segments

The Group comprises the following main operating segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers. The Group classifies its customer as Corporate Banking customer, where the loan amount is greater than MNT 3,000,000 thousand, or the borrower's sales amount is greater than MNT 6,000,000 thousand.
- *SME Banking* — Includes loans, deposits and other transactions and balances with SME customers. The Group classifies its customer as SME Banking customer, where the loan amount is between MNT 350,000 thousand and MNT 3,000,000 thousand, or the borrower's sales amount is between MNT 1,500,000 thousand to MNT 6,000,000 thousand.
- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers and card customers. The Group classifies its customer as Retail Banking customer, where the loan amount is less than MNT 350,000 thousand, and the borrower's sales amount is less than MNT 1,500,000 thousand.
- *Investment and International Banking* — Includes the Group's trading and corporate finance activities.
- *Treasury* — Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in assets such as short-term placements and corporate and government debt securities. Operation is the Group's funds management activities.
- *Others* — Includes Headquarter operations and central shared services operation that manages the Group's premises and certain corporate costs.

36 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2015	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment results							
External revenue							
Net interest income (expenses)	249,508,278	17,413,822	(23,806,089)	(157,995,079)	119,683,147	(30,468,002)	174,336,077
Net fee and commission income	10,618,841	200,909	16,821,128	236,755	120,889	1,420,972	29,419,494
Other operating income (loss), net	420,000	-	3,236,722	61,039	(27,469,339)	8,559,120	(15,192,458)
Intersegment revenue (expenses)	(160,617,051)	(5,081,158)	82,223,497	164,933,852	(98,703,267)	17,244,127	--
Total segment revenue (expenses)	99,930,068	12,533,573	78,475,258	7,236,567	(6,368,570)	(3,243,783)	188,563,113
Operating expenses	(1,108,930)	-	(31,344,784)	(2,257,491)	(4,859,630)	(51,846,837)	(91,417,672)
Share of profit of associates and joint venture	-	-	-	-	-	12,569,455	12,569,455
Provision for impairment losses	(42,835,397)	457,390	(4,597,317)	-	-	(715)	(46,976,039)
Profit (loss) before tax	55,985,741	12,990,963	42,533,157	4,979,076	(11,228,200)	(42,521,880)	62,738,857
Income tax expense							(1,263,569)
Net profit for the year							61,475,288
Non-controlling interests							(381,090)
Segment assets	2,139,782,228	115,501,330	484,758,282	-	2,422,259,063	381,783,402	5,544,084,305
Total liabilities	18,053,850	-	1,676,582,526	1,859,640,398	1,302,255,130	19,619,860	4,876,151,764
Depreciation and amortisation	(8,195)	-	(2,558,440)	(5,658)	(10,462)	(8,796,672)	(11,379,427)
Capital expenditures	-	-	3,047,189	29,874	10,114	7,094,222	10,181,399

36 Segment reporting (continued)

(In MNT'000)

As at and for the year ended 31 December 2014	Corporate Banking	SME Banking	Retail Banking	Investment and International Banking	Treasury	Other	Total
Segment results							
External revenue							
Net interest income (expenses)	239,486,919	18,366,100	(11,469,820)	(93,603,420)	25,356,953	(29,952,209)	148,184,523
Net fee and commission income	8,938,987	245,049	17,105,709	73,655	239,649	761,089	27,364,138
Other operating income (loss), net	-	-	4,194,468	-	13,769,374	12,919,148	30,882,990
Intersegment revenue (expenses)	(135,551,603)	(5,087,231)	55,680,164	83,875,072	(37,181,921)	38,265,519	-
Total segment revenue (expenses)	112,874,303	13,523,918	65,510,521	(9,654,693)	2,184,055	21,993,547	206,431,651
Operating expenses	(682,433)	(371,810)	(30,100,114)	(1,813,602)	(6,730,336)	(29,087,649)	(68,785,944)
Share of profit of associates and joint venture	-	-	-	-	-	1,085,417	1,085,417
Provision for impairment losses	(38,334,021)	(2,981,907)	(3,419,844)	-	-	(13,741)	(44,749,513)
Profit (loss) before tax	73,857,849	10,170,201	31,990,563	(11,468,295)	(4,546,281)	(6,022,426)	93,981,611
Income tax expense							(474,447)
Net profit for the year							93,507,164
Non-controlling interests							(87,115)
Segment assets	2,101,893,175	135,578,318	623,012,877	-	1,464,659,846	1,088,036,100	5,413,180,316
Segment liabilities	1,421,745	-	1,986,792,822	1,094,062,698	1,085,244,630	689,278,978	4,856,800,873
Unallocated liabilities	-	-	-	-	-	361,331	361,331
Total liabilities	1,421,745	-	1,986,792,822	1,094,062,698	1,085,244,630	689,640,309	4,857,162,204
Depreciation and amortisation	(14,800)	-	(2,266,340)	(5,337)	(11,180)	(3,612,639)	(5,910,296)
Capital expenditures	9,653	-	2,645,202	71,854	21,424	18,819,811	21,567,944

37 Significant transactions and balances with related parties

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

• *UB City Bank and its subsidiary*	The Group's chairman is a member of the board of directors of UB City Bank.
• *TDB Securities*	The Group's chairman previously wholly owned the TDB Securities. As the ownership was changed in June 2014, TDB Securities was no longer related party of the Group since then.
• *Capitron Bank*	Certain key management of the Group is a shareholder of Capitron Bank.
• *MIK Holding JSC ("MIK")*	The Group holds approximately 33.18% equity interest in MIK as at 31 December 2015. (note 7)
• *Mongolian General Leasing LLC and its subsidiary ("MGLL")*	The Group holds 55% equity interest in Mongolian General Leasing LLC as at 31 December 2015. (note 7)
• *JCDecaux LLC*	The Group holds 49% equity interest in JCDecaux LLC as at 31 December 2015. (note 7)

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

37 Significant transactions and balances with related parties (continued)

Significant transactions and balances with related parties as at and for the years ended 31 December 201 and 2014 were as follows:

	2015 MNT'000	2014 MNT'000
UB City Bank and its subsidiary:		
For the year ended 31 December		
Interest income	7,629,444	9,592,505
Interest expense	(4,484,327)	(3,126,023)
Net fee and commission income	(12)	(4)
As at 31 December		
Deposits and placements with banks and other financial institutions	99,799,000	94,268,112
Deposits and placements by banks and other financial institutions	9,680,503	9,145,160
Loans and advances	11,676,483	11,030,760
Subordinated loans (note 10)	4,000,000	4,000,000
Accrued interest income	13,671	51,625
Accrued interest expense	4,244	18,040
Current account	974,072	12,367,525
Capitron Bank:		
For the year ended 31 December		
Interest income	82,611	359,583
Interest expense	(99,214)	(116,467)
As at 31 December		
Deposits and placements by banks and other financial institutions	2,116,909	2,394,712
Accrued interest income	-	2,397
Accrued interest expense	16,471	38,971
Current account	129,008	470,123

37 Significant transactions and balances with related parties (continued)

	2015 MNT'000	2014 MNT'000
MIK:		
For the year ended 31 December		
Interest income	4,776,022	2,550,045
Interest expense	(1,286,789)	-
As at 31 December		
Investment securities (note 6)	51,814,600	28,375,000
Deposits and placements by banks and other financial institutions	31,720,000	-
Accrued interest income	632,980	345,784
Accrued interest expense	148,682	-
TDB Securities:		
For the year ended 31 December		
Interest income	-	463,543
MGLL:		
For the year ended 31 December		
Net fee and commission income	360,000	523,370
Interest income	203,846	47,352
Interest expense	(140,919)	(184,056)
As at 31 December		
Other assets	90,000	127,500
Deposit placements by banks and other financial institutions	3,966,494	2,376,734
Loans and advances	16,463,281	549,344
Accrued interest income	83,054	3,973
Other liabilities	1,424	2,091
Accrued interest expense	253	-
Lease payables	2,577,072	2,462,840
JCDecaux LLC:		
For the year ended 31 December		
Other operating income, net	(69,150)	(1,469,925)
Executive officers:		
For the year ended 31 December		
Interest income	655,728	605,842
As at 31 December		
Loans and advances	7,961,039	7,719,313
Accrued interest income	31,559	26,771

37 Significant transactions and balances with related parties (continued)

The loans to executive officers are included in loans and advances of the Group. Interest rates charged on mortgage loans and other loans extended to executive officers are less than would 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 2015 and 2014 amounted to MNT 5,339,872 thousand and MNT 5,315,930 thousand, respectively.

38 Categories of financial instruments

The carrying amounts of the categories of financial assets and financial liabilities as at 31 December 2015 and 2014 were summarised as follows:

(In MNT'000)

	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	-	-	694,959,701	-	-	-	694,959,701
Investment securities	-	988,095,150	-	424,444,772	-	-	1,412,539,922
Loans and advances	-	-	2,644,979,616	-	-	-	2,644,979,616
Reverse repurchase agreements	-	-	-	99,799,000	-	-	99,799,000
Subordinated loans	-	-	4,000,000	-	-	-	4,000,000
Derivative assets	34,642,718	-	-	-	-	66,333,362	100,976,080
Spot trading receivables	-	-	104,719,018	-	-	-	104,719,018
Other assets(*1)	-	-	107,301,626	-	-	-	107,301,626
	34,642,718	988,095,150	3,555,959,961	524,243,772	-	66,333,362	5,169,274,963
Financial liabilities							
Deposits from customers	-	-	-	-	2,209,953,463	-	2,209,953,463
Deposits and placements by banks and other financial institutions	-	-	-	-	112,754,972	-	112,754,972
Bills sold under repurchase agreements					99,799,000	-	99,799,000
Borrowings	-	-	-	-	1,012,394,089	-	1,012,394,089
Debt securities issued	-	-	-	-	1,175,921,345	-	1,175,921,345
Subordinated debt securities issued	-	-	-	-	29,939,700	-	29,939,700
Derivative liabilities	27,904,044	-	-	-	-	-	27,904,044
Spot trading payables	-	-	-	-	104,718,936	-	104,718,936
Other liabilities(*2)	-	-	-	-	97,837,860	-	97,837,860
	27,904,044	-	-	-	4,843,319,365	-	4,871,223,409

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

38 Categories of financial instruments (continued)

(In MNT'000)

As at 31 December 2014

	Trading	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Total
Financial assets						
Cash and due from banks	-	-	1,054,739,557	-	-	1,054,739,557
Investment securities	-	356,231,923	-	552,501,021	-	908,732,944
Loans and advances	-	-	2,777,188,433	-	-	2,777,188,433
Subordinated loans	-	-	4,000,000	-	-	4,000,000
Derivative assets	59,225,754	-	-	-	-	59,225,754
Spot trading receivables	-	-	151,552,920	-	-	151,552,920
Other assets(*1)	-	-	70,081,063	-	-	70,081,063
	59,225,754	356,231,923	4,057,561,973	552,501,021	-	5,025,520,671
Financial liabilities						
Deposits from customers	-	-	-	-	2,533,607,001	2,533,607,001
Deposits and placements by banks and other financial institutions	-	-	-	-	120,007,336	120,007,336
Bills sold under repurchase agreements	-	-	-	-	-	-
Borrowings	-	-	-	-	1,107,328,964	1,107,328,964
Debt securities issued	-	-	-	-	741,354,845	741,354,845
Subordinated debt securities issued	-	-	-	-	75,351,569	75,351,569
Derivative liabilities	27,643,093	-	-	-	-	27,643,093
Spot trading payables	-	-	-	-	151,588,485	151,588,485
Other liabilities(*2)	-	-	-	-	99,640,442	99,640,442
	27,643,093	-	-	-	4,828,878,642	4,856,521,735

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

38 Categories of financial instruments (continued)

Net gains (losses) by financial instruments categories for the years ended 31 December 2015 and 2014 were as follows:

(In MNT'000)

For the year ended 31 December 2015

	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	105,083,652	-	-	-	-	105,083,652	-
Loans and receivables	365,858,215	-	15,088,605	-	(44,593,884)	336,352,936	-
Available-for-sale financial assets	61,914,886	-	-	411,065	-	62,325,951	3,656,568
Derivatives and spot trading	-	-	-	(24,936,845)	-	(24,936,845)	39,938,362
Financial liabilities measured at amortised cost	-	(358,520,676)	-	-	-	(358,520,676)	-
	532,856,753	(358,520,676)	15,088,605	(24,525,780)	(44,593,884)	120,305,018	43,594,930

For the year ended 31 December 2014

	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	19,741,618	-	-	-	-	19,741,618	-
Loans and receivables	351,997,147	-	12,897,421	-	(40,720,427)	324,174,141	-
Available-for-sale financial assets	72,935,087	-	-	6,339,003	-	79,274,090	(41,641,303)
Derivatives and spot trading	-	-	-	11,537,886	-	11,537,886	-
Financial liabilities measured at amortised cost	-	(296,489,329)	-	-	-	(296,489,329)	-
	444,673,852	(296,489,329)	12,897,421	17,876,889	(40,720,427)	138,238,406	(41,641,303)

39 Financial risk management

(a) Introduction and overview

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

- Credit risks
- Liquidity risks
- Market risks

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

Risk management framework

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

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

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

39 Financial risk management (continued)

(b) Credit risk

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

Management of credit risk

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

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

An analysis of the net amounts of loans and investment securities with respective allowances at the reporting date was shown below.

(In MNT'000)	**Loans and advances**		**Investment securities**	
	2015	**2014**	**2015**	**2014**
Carrying amount	2,644,979,616	2,777,188,433	1,412,539,922	908,732,944
Performing	2,343,211,617	2,559,852,569	1,412,539,922	908,732,944
In arrears(*)	225,843,900	162,499,799	-	-
Non-performing loans:				
a) Substandard	83,290,704	78,522,293	-	-
b) Doubtful	76,841,944	20,932,352	-	-
c) Loss	13,932,061	14,123,762	-	-
Gross amount	2,743,120,226	2,835,930,775	-	-
Allowance	(98,140,610)	(58,742,342)	-	-
Net carrying amount	2,644,979,616	2,777,188,433	1,412,539,922	908,732,944
Letters of credit and guarantees	393,897,555	332,538,877	-	-
Loan and credit card commitments	160,542,611	182,317,263	-	-
	554,440,166	514,856,140	-	-

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

39 Financial risk management (continued)

(b) Credit risk (continued)

Impaired loans and securities

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

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

	2015 MNT'000			2014 MNT'000		
	Gross	Net	Fair value of collateral(*)	Gross	Net	Fair value of collateral(*)
In arrears	225,843,900	214,551,704	192,555,800	162,499,799	154,374,809	133,043,229
Substandard	83,290,704	62,468,028	61,564,992	78,522,293	58,891,719	58,346,867
Doubtful	76,841,944	38,420,972	37,967,140	20,932,352	10,466,176	10,289,851
Loss	13,932,061	-	-	14,123,762	-	-
	399,908,609	315,440,704	292,087,932	276,078,206	223,732,704	201,679,947

(*) 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.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Collateral generally is not held over loans and advances to banks except when securities are held as part of reverse repurchase and securities borrowing activities. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 or 2014.

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

39 Financial risk management (continued)

(b) Credit risk (continued)

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

	2015 MNT'000	2014 MNT'000
Agriculture	14,999,422	17,436,243
Mining and quarrying	357,352,881	341,202,328
Manufacturing	254,559,053	276,424,120
Petrol import and trade	114,907,340	198,256,662
Trading	432,642,345	440,784,221
Construction	531,639,949	504,175,139
Electricity and thermal energy	6,214,824	15,527,025
Hotel, restaurant and tourism	179,258,186	78,767,210
Financial services	166,778,566	163,556,363
Transportation	62,462,802	71,104,482
Health	21,004,416	26,469,558
Education	3,152,349	3,048,892
Mortgage	249,235,635	316,764,600
Payment card	96,837,809	119,146,430
Saving collateralised	20,802,803	35,634,439
Others	133,131,236	168,890,721
Total	2,644,979,616	2,777,188,433

39 Financial risk management (continued)

(b) Credit risk (continued)

As stipulated in the Banking Law of Mongolia, the total value of loans, loan equivalent assets and guarantees provided to one person or group of related persons shall not exceed 20% of the total equity of the Group. The maximum value of loans, loan equivalent assets and guarantees provided to a shareholder, the chairman, a member of the Representative Governing Board, an executive director or a bank officer or any related person thereof shall not exceed 5% of the capital of the Group, and the total amount shall not exceed 20% of the capital of the Group respectively. The criteria for concentration of loan as at 31 December 2015 are as follows:

Description	Suitable ratios	31 December 2015	Violation
The loan and guarantee given to one borrower	<Eq 20%	17.2%	None
The loan and guarantee given to the single related party	<Eq 5%	2.4%	None
Total loans and guarantees given to the related parties	<Eq 20%	5.3%	None

(c) Liquidity risk

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

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

Exposure to liquidity risk

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

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

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

	2015	2014
As at 31 December	44%	41%

39 Financial risk management (continued)

(c) Liquidity risk (continued)

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

(In MNT'000)

As at 31 December 2015	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	62,391,611	-	-	-	-	62,391,611
Deposits and placements with banks and other financial institutions	287,224,533	-	-	-	-	287,224,533
Balances with BOM	345,343,557	-	-	-	-	345,343,557
Investment securities	194,649,861	4,516,389	74,918,525	253,000,000	885,455,147	1,412,539,922
Loans and advances	545,091,337	296,818,327	666,009,123	903,391,505	233,669,324	2,644,979,616
Reverse repurchase agreements	-	99,799,000	-	-	-	99,799,000
Subordinated loans	-	-	-	4,000,000	-	4,000,000
Other assets(*1)	180,597,612	1,739,475	1,931,908	101,928,853	26,798,876	312,996,724
	1,615,298,511	402,873,191	742,859,556	1,262,320,358	1,145,923,347	5,169,274,963
Financial liabilities						
Deposits from customers	1,776,286,299	156,730,456	210,551,733	66,384,975	-	2,209,953,463
Deposits and placements by banks and other financial Institutions	21,580,545	43,969,500	47,204,927	-	-	112,754,972
Bills sold under repurchase agreements	-	99,799,000	-	-	-	99,799,000
Borrowings	63,158,931	155,508,698	279,239,586	350,482,505	164,004,369	1,012,394,089
Debt securities issued	-	-	-	1,175,921,345	-	1,175,921,345
Subordinated debt securities issued	-	19,959,800	-	9,979,900	-	29,939,700
Other liabilities(**)	157,077,765	8,338,833	12,024,586	52,988,451	31,206	230,460,841
Issued financial guarantee contracts	393,897,555	-	-	-	-	393,897,555
Unrecognised loan commitments	160,542,611	-	-	-	-	160,542,611
	2,572,543,706	484,306,287	549,020,832	1,655,757,176	164,035,575	5,425,663,576
Net financial assets/(liabilities)	(957,245,195)	(81,433,096)	193,838,724	(393,436,818)	981,887,772	(256,388,613)

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

39 Financial risk management (continued)

(c) Liquidity risk (continued)

(In MNT'000)

As at 31 December 2014	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	70,182,271	-	-	-	-	70,182,271
Deposits and placements with banks and other financial institutions	207,885,529	-	85,686,075	-	-	293,571,604
Balances with BOM	690,985,682	-	-	-	-	690,985,682
Investment securities	-	64,714,445	117,882,967	618,868,992	107,266,540	908,732,944
Loans and advances	388,091,652	365,848,034	699,887,188	1,074,384,923	248,976,636	2,777,188,433
Subordinated loans	-	-	-	4,000,000	-	4,000,000
Other assets(*1)	218,478,256	1,521,512	5,069,063	55,445,122	345,784	280,859,737
	1,575,623,390	432,083,991	908,525,293	1,752,699,037	356,588,960	5,025,520,671
Financial liabilities						
Deposits from customers	1,854,986,568	383,676,878	217,666,857	77,276,698	-	2,533,607,001
Deposits and placements by banks and other financial Institutions	81,630,664	14,523,832	23,852,840	-	-	120,007,336
Bills sold under repurchase agreements	-	-	-	-	-	-
Borrowings	271,650,683	319,640,890	236,754,910	278,033,519	1,248,962	1,107,328,964
Debt securities issued	-	-	531,957,131	209,397,714	-	741,354,845
Subordinated debt securities issued	-	-	47,140,000	28,211,569	-	75,351,569
Other liabilities(*2)	207,580,437	14,215,485	26,349,653	30,722,386	4,059	278,872,020
Issued financial guarantee contracts	332,538,877	-	-	-	-	332,538,877
Unrecognised loan commitments	182,317,263	-	-	-	-	182,317,263
	2,930,704,492	732,057,085	1,083,721,391	623,641,886	1,253,021	5,371,377,875
Net financial assets/(liabilities)	(1,355,081,102)	(299,973,094)	(175,196,098)	1,129,057,151	355,335,939	(345,857,204)

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

39 Financial risk management (continued)

(d) Market risks

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

Management of market risks

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

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

Overall authority for market risk is vested with the ALCO.

Exposure to interest rate risks

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

39 Financial risk management (continued)

(d) Market risks (continued)

As at 31 December 2015

(In MNT'000)

	Effective 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		62,391,611	62,391,611	-	-	-	-	-
Deposits and placements with banks and other financial institutions	5.5%	287,224,533	97,602,110	189,622,423	-	-	-	-
Balances with BOM		345,343,557	345,343,557	-	-	-	-	-
Investment securities	14.9%	1,412,539,922	94,450,200	194,649,861	4,516,389	74,918,525	253,000,000	791,004,947
Loans and advances	13.6%	2,644,979,616	-	545,091,337	296,818,327	666,009,123	903,391,505	233,669,324
Reverse repurchase agreements	6.1%	99,799,000	-	-	99,799,000	-	-	-
Subordinated loan	8.0%	4,000,000	-	-	-	-	4,000,000	-
Other assets(*1)		312,996,724	312,996,724	-	-	-	-	-
		5,169,274,963	912,784,202	929,363,621	401,133,716	740,927,648	1,160,391,505	1,024,674,271
Financial liabilities								
Deposits from customers	6.8%	2,209,953,463	-	1,776,286,299	156,730,456	210,551,733	66,384,975	-
Deposits and placements with banks and other financial institutions	5.3%	112,754,972	11,874,249	9,706,296	43,969,500	47,204,927	-	-
Borrowing	5.2%	1,012,394,089	-	63,158,932	155,508,698	279,239,585	350,482,505	164,004,369
Bills sold under repurchase agreements	5.0%	99,799,000	-	-	99,799,000	-	-	-
Debt securities issued	9.8%	1,175,921,345	-	-	-	-	1,175,921,345	-
Subordinated debt securities issued	8.7%	29,939,700	-	-	19,959,800	-	9,979,900	-
Other liabilities(*2)		230,460,841	230,460,841	-	-	-	-	-
		4,871,223,410	242,335,090	1,849,151,527	475,967,454	536,996,245	1,602,768,725	164,004,369
Net financial assets/(liabilities)		298,051,553	670,449,112	(919,787,906)	(74,833,738)	203,931,403	(442,377,220)	860,669,902

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

39 Financial risk management (continued)

(d) Market risks (continued)

As at 31 December 2014

(In MNT'000)

	Effective 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		70,182,271	70,182,271	-	-	-	-	-
Deposits and placements with banks and other financial institutions	8.13%	293,571,604	113,669,029	94,216,500	-	85,686,075	-	-
Balances with BOM	10.00%	690,985,682	615,985,682	75,000,000	-	-	-	-
Investment securities	11.61%	908,732,944	77,649,239	-	64,714,445	117,882,967	618,868,992	29,617,301
Loans and advances	12.20%	2,777,188,433	-	388,091,652	365,848,034	699,887,188	1,074,384,923	248,976,636
Subordinated loan	8.00%	4,000,000	-	-	-	-	4,000,000	-
Other assets(*1)		280,859,737	280,859,737	-	-	-	-	-
		5,025,520,671	1,158,345,958	557,308,152	430,562,479	903,456,230	1,697,253,915	278,593,937
Financial liabilities								
Deposits from customers	6.18%	2,533,607,001	-	1,854,986,568	383,676,878	217,666,857	77,276,698	-
Deposits and placements with banks and other financial institutions	5.54%	120,007,336	10,833,951	70,796,713	14,523,832	23,852,840	-	-
Borrowing	4.69%	1,107,328,964	-	271,650,683	319,640,890	236,754,910	278,033,519	1,248,962
Debt securities issued	8.99%	741,354,845	-	-	-	531,957,131	209,397,714	-
Subordinated debt securities issued	11.03%	75,351,569	-	-	-	47,140,000	28,211,569	-
Other liabilities(*2)		278,872,020	278,872,020	-	-	-	-	-
		4,856,521,735	289,705,971	2,197,433,964	717,841,600	1,057,371,738	592,919,500	1,248,962
Net financial assets/(liabilities)		168,998,936	868,639,987	(1,640,125,812)	(287,279,121)	(153,915,508)	1,104,334,415	277,344,975

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

39 Financial risk management (continued)

(d) Market risks (continued)

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

	100 bp parallel increase MNT'000	100 bp parallel decrease MNT'000
Sensitivity of projected net interest income		
2015		
At 31 December	(8,006,027)	8,006,027
2014		
At 31 December	(16,531,384)	16,531,384

39 Financial risk management (continued)

(d) Market risks (continued)

Exposure to foreign exchange rate risks

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

(In MNT'000)

	2015 MNT denominated	2015 Foreign currencies	2015 Total	2014 MNT denominated	2014 Foreign currencies	2014 Total
Financial assets						
Cash on hand	30,086,238	32,305,373	62,391,611	35,592,587	34,589,684	70,182,271
Deposits and placements with banks and other financial instruments	99,799,722	187,424,812	287,224,534	107,479,786	186,091,818	293,571,604
Balances and deposits with the BOM	138,049,193	207,294,364	345,343,557	157,440,592	533,545,090	690,985,682
Investment securities	1,325,346,534	87,193,388	1,412,539,922	835,718,150	73,014,794	908,732,944
Loan and advances	1,323,279,054	1,321,700,562	2,644,979,616	1,265,680,779	1,511,507,654	2,777,188,433
Bills purchased under resale agreements	-	99,799,000	99,799,000	-	-	-
Subordinated loans	4,000,000	-	4,000,000	4,000,000	-	4,000,000
Other assets (*1)	64,926,104	248,995,703	313,921,807	102,974,132	177,885,605	280,859,737
	2,985,486,845	2,184,713,202	5,170,200,047	2,508,886,026	2,516,634,645	5,025,520,671
Financial liabilities						
Deposits from customers	1,084,139,596	1,125,813,868	2,209,953,464	1,193,983,731	1,339,623,270	2,533,607,001
Deposits and placement by bank and other financial institutions	840,763	111,914,209	112,754,972	477,418	119,529,918	120,007,336
Bills sold under repurchase agreements	-	99,799,000	99,799,000	-	-	-
Borrowings	409,821,669	602,572,420	1,012,394,089	552,220,719	555,108,245	1,107,328,964
Debt securities issued	-	1,175,921,345	1,175,921,345	-	741,354,845	741,354,845
Subordinated debt	-	29,939,700	29,939,700	-	75,351,569	75,351,569
Other liabilities (*2)	137,106,798	93,354,043	230,460,841	165,112,747	113,759,273	278,872,020
	1,631,908,826	3,239,314,585	4,871,223,411	1,911,794,615	2,944,727,120	4,856,521,735
Off-balance foreign currency exposure, net		1,187,650,650			334,548,707	
Net foreign currency exposure		133,049,268			(93,543,768)	

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

39 Financial risk management (continued)

(d) Market risks (continued)

Exposure to foreign exchange rate risks (continued)

A ten percent strengthening or weakening of the MNT against the USD at 31 December 2015 and 2014 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
2015		
At 31 December	(13,304,927)	13,304,927
2014		
At 31 December	(9,354,377)	9,354,377

39 Financial risk management (continued)

(e) Capital Management

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

The Bank of Mongolia requires the Group to maintain a minimum capital adequacy ratio of 14.0% at 31 December 2015 and 2014, 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 2015 and 2014, complied on the basis of total tier 1 capital and total assets as adjusted for their risk ("TCAR").

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

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

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

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

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

The suitable ratios of the Group's capital adequacy as at 31 December 2015 and 2014, respectively, were as following:

	2015 MNT'000	2014 MNT'000
Tier 1 capital	490,113,103	422,393,739
Tier 2 capital	173,222,689	200,509,855
Total Tier 1 and Tier 2 capital	663,335,792	622,903,594
Risk weighted assets	3,980,409,511	3,250,150,263
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	16.67%	19.17%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("TCAR")	12.31%	13.00%

40 Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

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

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

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

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

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

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

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

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

(ii) Fixed rate financial instruments

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

40 Fair values of financial assets and liabilities (continued)

(In MNT'000)	Note	2015 Carrying amount	2015 Fair value	2014 Carrying amount	2014 Fair value
Financial assets					
Cash on hand	5	62,391,612	62,391,612	70,182,271	70,182,271
Deposits and placements with banks and other financial institutions	5	632,568,089	632,568,089	984,557,286	984,557,286
Investment securities	6	1,412,539,922	1,447,532,256	908,732,944	891,441,305
Loans and advances to customers	8	2,644,979,617	2,672,755,808	2,777,188,433	2,862,321,184
Bills purchased under repurchase agreements	9	99,799,000	99,799,000	-	-
Subordinated loans	10	4,000,000	4,000,000	4,000,000	4,000,000
Other assets(*1)	15	312,996,724	312,996,724	280,859,737	280,859,737
		5,169,274,964	5,232,043,489	5,025,520,671	5,093,361,783
Financial liabilities					
Deposits from customers	16	2,209,953,464	2,208,001,687	2,533,607,001	2,531,874,208
Deposits and placements by banks and other financial institutions	17	112,754,972	112,754,972	120,007,336	120,007,336
Bills sold under repurchase agreements	18	99,799,000	99,799,000	-	-
Borrowings	19	1,012,394,089	1,012,394,089	1,107,328,964	1,107,328,964
Debt securities issued	20	1,175,921,345	1,151,884,991	741,354,845	711,503,745
Subordinated debt securities issued	21	29,939,700	29,501,465	75,351,569	73,378,939
Other liabilities(*2)	22	230,460,841	230,460,841	278,872,020	278,872,020
		4,871,223,411	4,844,797,045	4,856,521,735	4,822,965,212

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

40 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are measured at fair value in the consolidated statement of financial position as at 31 December 2015 and 2014 were as follows:

(In MNT'000)

	2015(*2)			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment securities (AFS)(*1)	94,006,770	329,994,572	-	424,001,342
Derivative assets	-	34,642,718	66,333,362	100,976,080
	94,006,770	364,637,290	66,333,362	524,977,422
Derivative liabilities	-	27,904,044	-	27,904,044

(*1) As at 31 December 2015, unquoted equity securities at cost amounting to MNT 443,430 thousand 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 2015.

(*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 2,549.04 as at 31 December 2015.

A ten percent strengthening or weakening of input unobservable in markets as at 31 December 2015 would have increased or decreased other comprehensive income by MNT 61,572,401 thousand.

Total gains or losses for the period recognized in the profit or loss and other comprehensive income related to financial instruments in level 3 were MNT 26,395,000 thousand and MNT 39,938,362 thousand for the year ended 31 December 2015.
There was no transfer between level 3 and other levels for the year ended 31 December 2015.

(In MNT'000)

	2014(*2)			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment securities (AFS)(*1)	78,448,110	473,609,481	-	552,057,591
Derivative assets	-	59,225,754	-	59,225,754
	78,448,110	532,835,235	-	611,283,345
Derivative liabilities	-	27,643,093	-	27,643,093

(*1) As at 31 December 2014, unquoted equity securities at cost amounting to MNT 443,430 were excluded.
(*2) There was no transfer between level 1 and level 2 for the year ended 31 December 2014.

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

40 Fair values of financial assets and liabilities (continued)

The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as at 31 December 2015 and 2014 were as follows:

(In MNT'000)

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash on hand	62,391,612	-	-	62,391,612
Deposits and placements with banks and other financial institutions	-	-	632,568,089	632,568,089
Investment securities (HTM)	-	1,023,530,914	-	1,023,530,914
Loans and advances	-	-	2,672,755,808	2,672,755,808
Bills purchased under resale agreements	-	-	99,799,000	99,799,000
Subordinated loans	-	-	4,000,000	4,000,000
Spot receivables	104,719,018	-	-	104,719,018
Other assets(*1)	-	-	60,467,724	60,467,724
	167,110,630	1,023,530,914	3,469,590,621	4,660,232,165
Deposits from customers	-	-	2,208,001,687	2,208,001,687
Deposits and placements by banks and other financial institutions	-	-	112,754,972	112,754,972
Bills sold under repurchase agreements	-	-	99,799,000	99,799,000
Borrowings	-	-	1,012,394,089	1,012,394,089
Debt securities issued	-	1,151,884,991	-	1,151,884,991
Subordinated debt securities issued	-	29,501,465	-	29,501,465
Spot payables	104,718,936	-	-	104,718,936
Other liabilities(*2)	-	-	50,968,312	50,968,312
	104,718,936	1,181,386,456	3,483,918,060	4,770,023,452

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

40 Fair values of financial assets and liabilities (continued)

(In MNT'000)

	2014			
	Level 1	Level 2	Level 3	Total
Cash on hand	70,182,271	-	-	70,182,271
Deposits and placements with banks and other financial institutions	-	-	984,557,286	984,557,286
Investment securities (HTM)	-	338,940,284	-	338,940,284
Loans and advances	-	-	2,862,321,184	2,862,321,184
Subordinated loans	-	-	4,000,000	4,000,000
Spot receivables	151,552,920	-	-	151,552,920
Other assets(*1)	-	-	70,081,063	70,081,063
	221,735,191	338,940,284	3,920,959,533	4,481,635,008
Deposits from customers	-	-	2,531,874,208	2,531,874,208
Deposits and placements by banks and other financial institutions	-	-	120,007,336	120,007,336
Bills sold under repurchase agreements	-	-	-	-
Borrowings			1,107,328,964	1,107,328,964
Debt securities issued	-	711,503,745	-	711,503,745
Subordinated debt securities issued	-	54,821,987	18,556,952	73,378,939
Spot payables	151,588,485	-	-	151,588,485
Other liabilities(*2)	-	-	99,640,442	99,640,442
	151,588,485	766,325,732	3,877,407,902	4,795,322,119

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

I Offsetting financial assets and liabilities

etails of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as at 31 December 2015 and)14 are as follows:

(In MNT'000)

	2015					
	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						
Derivative assets(*1)	45,893	-	45,893	3,994,152	-	45,893
Receivable spot exchange(*1)	3,994,152	-	3,994,152			
Bills purchased under resale agreements (*2)	99,799,000	-	99,799,000	99,799,000	-	-
	103,839,045	-	103,839,045	103,793,152	-	45,893
Financial liabilities						
Derivative liabilities(*1)	7,965,038	-	7,965,038	3,994,152	-	7,965,314
Payable spot exchange(*1)	3,994,428	-	3,994,428			
Bills sold under repurchase agreements(*2)	99,799,000	-	99,799,000	99,799,000	-	-
	111,758,466	-	111,758,466	103,793,152	-	7,965,314

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

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

41 Offsetting financial assets and liabilities (continued)

(In MNT'000)

	2014					
	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						
Derivative assets(*1)	238,422	-	238,422	50,529,892	-	242,610
Receivable spot exchange(*1)	50,534,080	-	50,534,080			
	50,772,502	-	50,772,502	50,529,892	-	242,610
Financial liabilities						
Derivative liabilities(*1)	3,183,135	-	3,183,135	50,529,892	-	3,183,135
Payable spot exchange(*1)	50,529,892	-	50,529,892			
	53,713,027	-	53,713,027	50,529,892	-	3,183,135

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

42 Commitment and contingent liabilities

Financial guarantees and letters of credit

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

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

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

As at 31 December	2015 MNT'000	2014 MNT'000
Letters of credit and guarantees	393,897,555	332,538,877
Loan and credit card commitments	160,542,611	182,317,263
Unfunded Syndicated risk participation	134,518,272	-

These commitments and contingent liabilities have off balance-sheet credit risk for which provisions are not currently made which is a local banking industry practice acknowledged by BOM. 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.

43 Interests in unconsolidated structured entities

Nature of risk associated with interests in unconsolidated structured entities as at 31 December 2015 was as follows:

Type	Nature and purpose	Financing	Total Assets
Securitisation vehicles for loans and advances	To generate: ▪ funding for the Group's lending activities. ▪ fees for loan servicing. These vehicles are financed through the issue of notes to investors.	Issue of RMBS notes	2,010,062,427

Exposure to risk relating to interests in unconsolidated structured entities as at 31 December 2015 was as follows:

	Securitisation vehicles for loans and advances
Asset:	
Investment securities	51,814,600

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