ANNUAL REPORT | 2016

TDB
TRADE & DEVELOPMENT BANK

YOUR FINANCIAL GATEWAY TO MONGOLIA

TOGETHER TOWARDS PROSPERITY

01 CONTENT

02 BUSINESS ACTIVITIES

03 REPORT OF EXTERNAL AUDITOR


“Customers of TDB have their stable, leading positions on their business sectors and the market”

MESSAGE FROM PRESIDENT

Dear customers, partners and shareholders

We, as the oldest and the leading bank of the country, are principled to provide best solutions, sophisticated banking products and services in-line with best international practices, we, all the time, through every economic cycles, growth and downturn, strive to continually meet financial needs of our corporate and retail customers with our prompt and reliable financial services and support them under our sustainable finance policies.

Customers of TDB have their stable, leading positions on their business sectors and the market. We believe that achievements of our customers are the outcome of our successful partnership. In 2016 we have been awarded with world acknowledged awards.

In 2016, we continued to provide our corporate and retail customers with number of advanced products and services, and provided necessary financings in timely manner, as well as implemented number of projects successfully. Furthermore we concluded number of deals with great importance on expanding our international relations and partnership. For instance, the bank participated in and awarded with the International Air Transport Association's Clearing Bank Services Tender, introduced Swift SCORE service, that allows international companies to efficiently manage its finance and concluded financing agreements with China Development Bank, Baoshang Bank as well as signed a Memorandum of Understanding with Agricultural Bank of China on MNT account cooperation and MNT loan cooperation to further advance our cooperation. In order to deliver banking services easily and efficiently we introduced online MoneyGram, cash transfer service first time in Mongolia as well as introduced NFC feature on Most Money application that provided a remote payment method, without using payment card.

For the many years to come, we will serve our customers with value and to provide services that exceed their expectation with our outstanding corporate culture, social responsibility and professional staff, together towards prosperity. I wish a great success on your endeavors.

President

MEDREE Balbar

“We have initiated the MNT trade on the international market and enabled the independent use of trade finance loans”

MESSAGE FROM CEO

Dear shareholders, customers, business partners, associates, we, Trade and Development Bank are delighted to present the report for our achievements, operational and financial performance for the year of 2016.

Despite Mongolian economy experienced challenges in the reporting period, TDB had a year of significant achievements and showed its stability and strength to operate efficiently in any economic cycle, supported by our sound policy. For instance, TDB alone executed 61.8% of the country's total trade related transactions, total funding from international banks and financial institutions reached MNT 865 billion, increased by 38% compared to previous year. We continued to provide, in timely manner, necessary financing for our corporate and retail customers.

Moreover, we made the first step toward Tugrug convertibility on international market and continued our focus on providing trade finance facilities to support our customers' business, utilizing our trade finance lines with total amount of USD 658.4 million. We issued Letters of Credit and Letters of Guarantee with total amount of MNT 956.3 billion to support our customers' procurement of products and services, cash flows and their financial capability.

TDB is the first and only Mongolian entity that has issued bonds five times internationally with total amount of USD 1.14 billion since 2007. The bank successfully repaid its three-year CNH 700 million or USD 115 million senior unsecured notes, issued in 2014, on the maturity from our internal liquidity without refinancing it with any new issuance or borrowing, signified the fourth successful repayment of senior unsecured notes. It showed our bank's financial strength and reliability on international market.

The proceeds of bank's issued bonds and raised funds contributed significantly to Mongolian economy and TDB continues to be a major driver of Mongolian financial sector. Leveraging on our vast professional experience the bank advised, in cooperation with major international investment banks, for Mongolian government's issuance of USD 500 million bond on international market, proudly contributed to Mongolian economy in the reporting period.

Retail deposits with the bank increased by 39.1% for the reporting period, twice as high as the banking sector growth, showed our customers' trust and confidence in us.

Our financial strength, sustainable growth and foreign relations have been acknowledged by prestigious international magazines and recognized as "Best Commercial Bank of Mongolia" by Finance Asia, Global Banking and Financial Review, Global Trade Review and "Leading Partner Bank in Mongolia" by Asian Development Bank's Trade Finance Program as well as "The Best PFI of the Year" by JICA's two step-loan project for SME development and environmental protection.

As for the year 2017, TDB is aiming to operate with new strategy and organizational structure and to implement a number of innovations such as further advancing online banking and digital branch services to a new level that will save our customer's time. For our corporate clients, we aim not only to finance them, but also are working to increase customer benefits by building a network to support relations and cooperation between our customers by acting as a financial bridge between them. We will continue to be the leading innovator in Mongolian banking sector.

Year of 2017, in our view, would be a good year for Mongolian economy and we would like to wish all of you, a success and inspire you to work together towards prosperity. Please accept my sincere gratitude on behalf of management team and all employees of TDB.

With sincere regards,

Chief Executive Officer

ORKHON Onon

WE RESPECT AND CHERISH OUR HERITAGE AND TRADITION

Bank logo

The logo was designed based on a coin, symbolizing infinitely flowing wealth towards the money chest from incardinal directions with infinite circulation of money to grow and accumulate wealth and treasure in abundance.

TDB
ХУДАЛДАА ХӨГЖЛИЙН БАНК

Slogan

"Together towards prosperity"

The slogan of the bank calls upon, unifies and inspires employees, customers and investors to walk towards the development and prosperity together

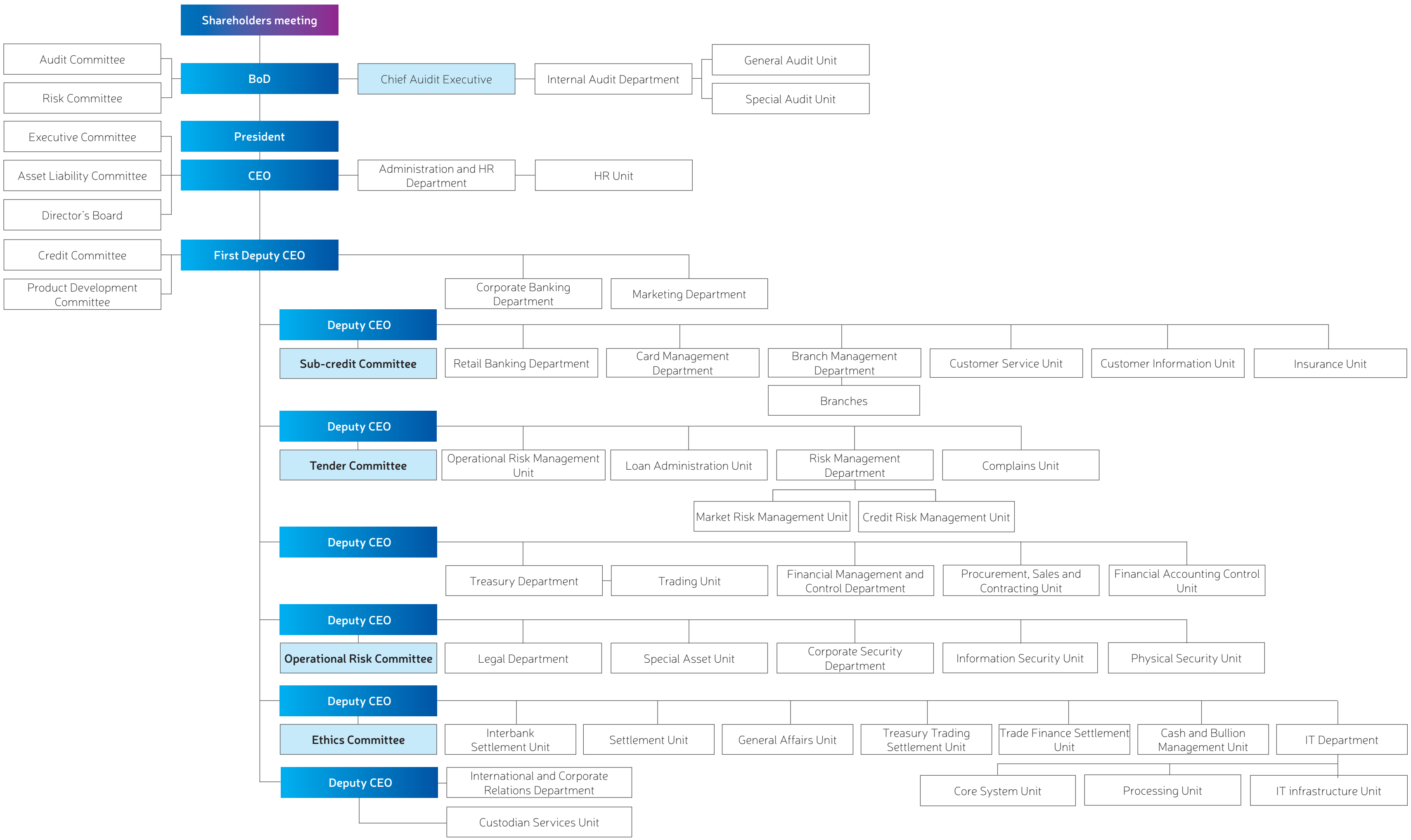
Mission

As the leading universal bank in Mongolia, TDB constantly aims to achieve the highest customer satisfaction by developing and providing the demand driven, valuable banking solutions for corporate, SME and retail customers. Our success will be built upon our commitment to excellent service, staff professionalism and best corporate governance.

Vision

TDB will be the leading financial institution in Mongolia, a universal bank with a strong international presence, a dedicated, trusted and responsible financial partner helping all its clients and stakeholders in their pursuit of sustainable financial well-being.

ORGANIZATIONAL STRUCTURE



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 Representative Governing Board, 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.

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.

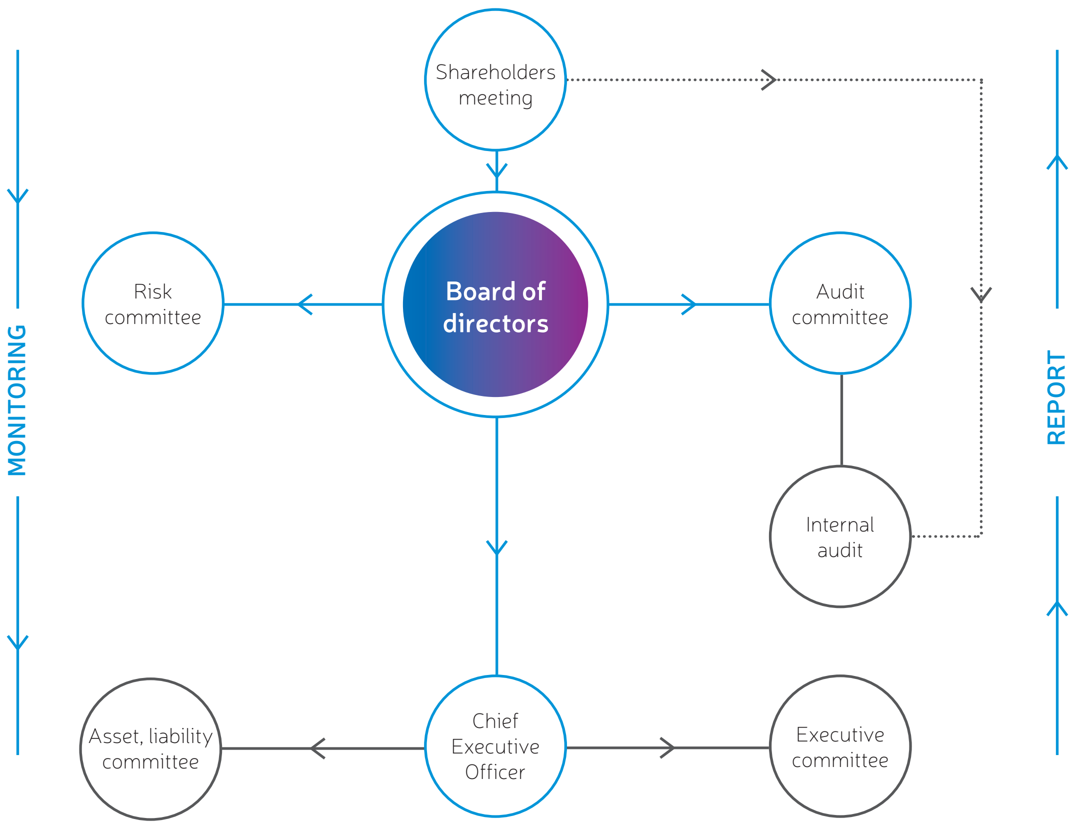
Employees

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 maintain 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 in a noble way.

CORPORATE GOVERNANCE STRUCTURE



Board directors

Chairman
Mr.Doljin **ERDENEBILEG**

Excutive Vice Chairman
Mr. Randolph **KOPPA**

Members
Mr. Zuunai **SHAGDARSUREN**
Ms. Tamir **TSOLMON**
Mr. Chuluunbaatar **ENKHBOLD**

Corporate Secretary
Dashzegve **DAVAAJAV**

MANAGEMENT TEAM

1 **Mr. Lkhagvasuren SORONZONBOLD**
Deputy CEO

2 **Mr. Dambiijav KHURELBAATAR**
Deputy CEO

3 **Ms. Demchigjav OTGONBILEG**
Deputy CEO

4 **Mr. Onon ORKHON**
Chief Executive Officer

5 **Mr. Balbar MEDREE**
President

6 **Mr. Randolph KOPPA**
Excecutive Vice Chairman

7 **Ms. Palamdorj GANTUUL**
Chief Auditor

8 **Mr. Sanjaasuren ORGODOL**
Deputy CEO

9 **Mr. L NYAMSUREN**
Director of Administration and HR Department

HISTORY OF THE BANK

TIMELINE OF HIGHLIGHTS

1990

On October 19, Trade & Development Bank was established under Resolution No.71 of Government of People's Republic of Mongolia

1991

- The first bank in Mongolia to accept American Express Card
- Started extending export and import guarantee, important trade finance product
- First bank to freely set buy and sell rates of currency exchange

1992

- First bank to create and use logo
- First bank in Mongolia to adopt International Financial Reporting Standards
- Started to use computer for its operations that allowed customers to benefit from the advantages of information technology by being provided with prompt services.
- Started to use "Nya-bo 1", "Lota-1" software, the first programs for bank accounting
- First bank to accept world recognized Thomas Cook, Visa, Mastecard, Citicorp, Bank of America's travelers cheque
- First bank to do FX transactions, by placing its excess FX liquidity with foreign banks
- First to accept Visa, MasterCard credit cards,
- Introduced cash-collection service for the large customers of the bank

1993

- Changed the name "State Bank of Mongolia" which represented the bank internationally to "Trade & Development Bank of Mongolia"
- Approved and implemented the first strategic plan

1994

- The first commercial bank to have its financials audited by internationally recognized auditor "Arthur Andersen"
- First bank to accept Japanese International JCB Card
- First bank to offer AmEx corporate card to our customers

1995

- Opened its new headquarter building equipped with modern solutions, welcomed its customers
- Signed an agreement to use the Reuters platform to access the real time news of international FX market.
- Selected as the onlending bank for the project loan by German KfW bank to "Support Small and medium enterprise".

1996

- Joined the SWIFT network or "Society for Worldwide Interbank Financial Telecommunication" for the first time from Mongolia, and started to provide the most reliable and prompt international transfer services.
- First ever POS terminal or the card payment processor has been installed at the Client service unit.

1997

First commercial bank introduce promissory notes in payments.

1998

First time in Mongolian banking sector signed the training program agreement "Bank Twinning" with Norwegian Banking Resources Ltd

1999

- First time in Mongolia started providing payment services in EUR.
- Has been selected as the on-lending bank for the World Bank's "Project to support the private sector" and started on-lending to the private sector companies.

2000

- The motto "Together towards prosperity" has been created.
- First bank to start buying physical gold from clients.
- First to introduce international remittance service "MoneyGram" to Mongolian market.
- Introduced "Savings box" service.

2001

- First time in Mongolia installed ATM's for the provision of banking services 24 hours.
- Became a member of Visa International and introduced 4 types of Visa card on the market.
- Proved that the bank is capable to work on the international market by introducing financial derivatives services such as options, swaps and forward to the market.
- Started providing correspondent account services to the international banks by opening loro accounts.

2002

- By transition to the online system of all branches and settlement centers and introduced international standard "BANCS" program, Teller system, TDB Became the first bank to provide banking services from any point of Mongolia.
- First commercial bank to start non-physical gold trading, and introduced advanced banking service of "Mobile banking", "Escrow account", "Margin trade" services to the clients.
- First bank in Mongolia to create a centralized information backup database.
- First bank in Mongolia to establish corresponded relationship with PRC's Agricultural bank of China by opening CNY nostro account and started non cash payments and bank note services with Chinese banks.
- Established operator "Call center" to provide information on banking services 24 hours.

2003

- Signed Management and technical assistance agreement with world renowned ING Bank.
- Organized the 26th conference of Asia and pacific countries financial development organization.
- Issued first ever Co-brand card in Mongolia in association with "Mongolian youth federation".

2004

- First commercial bank in Mongolia to export gold on international market.
- First Mongolian bank to receive financing from Asian Development Bank and International Financial Corporation.
- Launched the bank's website www.tdbm.mn, to provide up to date bank information to the clients.
- Introduced "Payment execution via fax mile" in to the market.
- Introduced "Term savings" and "Prepaid interest savings" services first time in Mongolia to meet the interest and demand from clients.
- Established "Private banking center" to cater to the clients in the comfortable environment with high confidentiality of the client's financial information.
- Launched high class credit card "Visa Platinum" to the card market.

2005

- Launched "Internet banking service" that is accessible from everywhere in the world.
- Introduced Mortgage loan and Car loan products to the market.
- Became the bank that provides payment services in most currencies with the opening of New Zealand dollar clearing account.
- Launched "Children's savings" product for the Mongolia's bright future citizens.
- Introduced "Verified by Visa" for the secure online transactions of the retailer companies.
- First bank in Mongolia to introduce Syndicated loan facility for the corporate clients in association with international partner bank.

2006

- The first Mongolian Commercial bank rated by "Moody's Investor Service.
- Joined "Bloomberg" platform for receiving world financial market information.
- First time introduced "Lady Loyalty" and "Mobicom loyalty" bonus accumulating cards on Mongolian card business.
- Introduced Principle protected service of international remittances with cooperation of HSBC bank as a pioneer in Mongolian market.

2007

- First ever Mongolian commercial bank to reach the asset size of MNT 500 billion/half trillion.
- First Mongolian bank to enter the International capital market issued USD 75 mln within EMNT USD 150 mln.
- First commercial bank to introduce "E - billing" and "FlyCard" services.
- Introduced new products to the market such as: "Mortgage loan", "Overdraft", "Pension secured loan", "RMB savings", "Non-cash payment services".
- First and only bank to introduce "Gift cheque" issued by American Express company

2008

- Joined "MasterCard Worldwide" as a member, issued debit, credit cards and first time issued euro card on Mongolian market.
- First commercial bank to introduce Sweden krone remitting services.
- For the first time introduced highly secured, internationally recognized "Savings certificate".

2009

- Successfully repaid USD 75 mln senior notes issued on international market at the maturity.
- First time in Mongolia Introduced Euro currency for "MoneyGram" service.
- Introduced "PayEasy" remittance service to Mongolian citizen who works and leaves in South Korea with the cooperation of Hana Bank and PayOne.
- Introduced "SMS banking" which allowed to receive the card notification of the transaction.

2010

- First time introduced "Mobile bank" service.
- Successfully issued the second senior note of USD 175 mln on international capital market.

2011

- Estabilished "Bloomberg TV Mongolia"
- Successfully signed the "Investment agreement" for the sales of 4.78% shares of TDB to worldwide leading bank "Goldman Sachs" group

2012

- Firstly introduced "₮" electronic card.
- First time in Mongolia introduced UnionPay card with triple currencies.
- Successfully issued USD 300 mln senior notes.

2013

- First time singed "Syndicated Facility Loan agreement" for USD 82 mln on international financial market.
- Signed "Cooperation agreement" with Microsoft corporation for extending qualified and secure software.
- Awarded as "Best Bank in Frontier Market" of Asia by Finance Asia magazine.

2014

- Succesfully issued its first RMB 700 mln.
- Opened its first representative office in Tokyo, Japan.

2015

- Successfully issued its 500 mln senior notes for tenor of five years.
- Introduced first Custodian banking service in Mongolian market.

HIGHLIGHTS OF 2016

TDB has organized "Mongolia Night" event for the 4th year, to introduce Mongolia's culture and art to the world's most influential leaders at the World Economic Forum in Davos, Switzerland.

TDB has participated in the tender of The International Air Transport Association (IATA) and been selected as the bank to provide the clearing services. As a result, we started to provide comprehensive and the most advanced financial services to execute the payment transactions between airline companies and the ticket agents in prompt and secury way.

As a result of our provision financial services to the mine operating companies of West and East coal mines of Tavan Tolgoi, Erdenes Tavan Tolgoi LLC, extraction process of the mine according to the initial planning, benefiting Mongolian economy furthermore.

TDB has financed large scale projects such as "Fresh-Health beverage" from the most advanced medicine manufacturer of Mongolia, Monos Group LLC, "Steel Ball Manufacturing" of Darkhan Steel Manufacturer LLC, and "Khukh Tsaviin Cement Manufacturing" project with the capacity of manufacturing 1 million cement per year of MAK LLC.

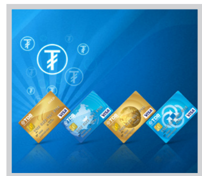
TDB has signed on 20 million USD loan agreement with China's Development Bank, 300 million Chinese Yuan loan agreement with Baoshan Bank, and Memorandum of Understanding on MNT account cooperation and MNT loan cooperation with Agricultural bank of China.

TDB has financed multiple large construction projects, such as "Narnii Khoroolol" town of Khurd Group LLC, "Romana Residence" luxury apartments of Jiguur Grand LLC, and "Shine Nalaikh Khoroolol" of Telmen construction.

TDB has launched MoneyGram Self-service, enabling our customers to transfer and receive money at any time.

TDB has launched new and comprehensive pension services, Pension fund account, Pension savings account with high interest rate and flexible loan tied to pension accounts.

Clients who have savings account are able to extend their account tenor by using TDB Online services.



TDB has introduced MNT international card which lets clients make financial transactions without using other international cards.

TDB's POS terminals now support Most Money NFC transactions which enables TDB clients to make payments using their cell phones.

TDB has launched Convertible Corporate Certificate of Deposit, a new product for our corporate customers to increase efficiency of cash management and earn higher interest income.

TDB has introduced "International Bulk Transaction" service, which enables customers to make domestic and international transactions faster and easier. It also allows foreign firms to manage their accounts from abroad.

SWIFT

INTERNATIONAL AWARDS

1

“BEST COMMERCIAL BANK IN MONGOLIA”

5th year from the Global banking & finance review organization

2012, 2013, 2014, 2015, 2016

2

“LEADING COOPERATION BANK OF MONGOLIA”

Asian Development Bank

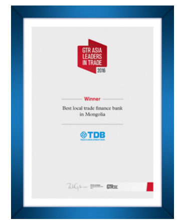
2015, 2016

3

“THE BEST BANK OF MONGOLIA”

Platinum Awards, ceremony for the anniversary of the 20th year “Finance Asia” magazine

4



“THE BEST BANK OF THE TRADE FINANCING”

6th year from the Global Trade Review magazine

2011, 2012, 2013, 2014, 2015, 2016

5

“DEEP PARTNERSHIP”

Visa Worldwide

6

“THE BEST PFI OF THE YEAR”

JICA award for non-existence of non-performing loans and the amount of the loan disbursed

INFOGRAPHIC

4,483 employee participated training course

1 employee participated

3 trainings

As a result of paperless loan processing program

198 trees	**392** tonn water	**22** tonn Carbon dioxide (CO_2)	**16** tonn trash

WE SAVED

According to the customer satisfaction survey

97% percent of our customers evaluated the interior and coziness of bank branches, and appearance of bank employees as **GOOD.**

For the last 5 years TDB has paid tax with total amount

86'108'225'775.83 MNT

Equivalent to cover cost of

- **71** kindergardens with 120 beds
- **21** hospitals with 100 beds
- **Khovd** > 189 km > **Bayan-Ulgii**

of paved road.

21,573 families have bought their apartment with mortgage loans provided by TDB.

In 2016,

14,004 marriages have been recorded

20,163 customer loans have granted by TDB.

SOCIAL RESPONSIBILITY

TDB has been continuously implementing the Sustainable Finance Principles

Organized "Together for the Green Future" campaign for tree watering.

By implementing Mongolian Sustainable Finance Principles, over 200 employees of TDB have joined the "Green Future" campaign initiated by "My club" NGO. Total donation of MNT 896,000 was raised by the employees of TDB and watered 8,500 trees in Tuv province.

Launched paperless loan processing program.

TDB has successfully developed fully automatic, paperless loan processing program. With this program, recommendation, decision making, automatic agreement processing are handled through online and eliminates printing all of these materials. . As a result, we have saved more than MNT 100 million and 171 trees, 392 tons of water and prevented 22 tons of carbon dioxide, 16 tons of wastes.

Received "The Best Sustainable Financing Bank of 2016" award

TDB has been awarded for "The Best Sustainable Financing Bank of 2016" by the Mongolian Bankers Association, This highly reputable award evaluates our efforts made through Sustainable Financing program and the implementation of Environment, Social risk management system.

Cleaning of Tuul river shores

In cooperation with Tuul river basin Administration under the Ministry of Environment and Green Development, over 450 employees of TDB have participated in cleaning of total 9 kilometers of Tuul river shores and collected approximately 880 bags of garbage.

TDB and Sports

In any nation, sports have tremendous benefits as well as to the individuals, promoting tolerance, improving public health and building individual solidarity. This is why TDB's executives and its employees constantly support and actively participate in sports activities.

The bank supports and sponsors community sports events to improve and raise awareness of physical wellness for the general public. TDB has sponsored "Duulian 2020" football tournament for the last decade which held amongst secondary schools.

Arts and culture

Arts and culture are the social expressions of all time and one of the precious heritage. TDB has been embracing national folk artists and musicians, who contributes to pass on the Mongolian nomadic culture to the next generation and as well as supporting the classical artists.

Classical art: TDB has sponsored and supported the first live performance of "Solo Concert Evening" in Mongolia at the State Opera and Ballet Academic Theater. In addition, Medree.B, the President of TDB, a philanthropist who privately sponsored and donated to lead ballet dancer Mr.Gantsooj as well as many well-known artists to attend international competitions and helped them stand out from the crowd and promote them into successful artists.

Promoter of Mongolian arts and culture to the world: TDB has sponsored and organized number of events and showcases of Mongolian art, culture and unique features such as "Mongolia night", at the World economic forum over the last four years. The event introduces and promotes the unique Mongolian nomadic culture and its arts to the world leaders and leading entrepreneurs. During the last event, more than 100 artists were invited and performed the Mongolian folk music and performances introducing the Mongolian nomadic cultural heritage to the attendees.

85th Anniversary of the Theatre: State Academic Theater of Drama celebrated its 85th anniversary in 2016. "The Theater XXI century" photography exhibition for the 85th of the State Academic Theater of Drama was sponsored by TDB.

In the future TDB will lead its role in an effort to preserve the Mongolian arts and cultural heritage to the future generations.

Youth care

Our bank deeply cares for the children and the youth as they are the Mongolian future. TDB participated and supported the New Year's celebration for the children at the 29th School of Special Education of Ulaanbaatar for the 12th years in a row. Because of the disability these are unable to attend other schools and requiring special care and support at all times. We are always proud to celebrate holidays with them and glad to witness their happiness.

TDB has sponsored the 14th Secondary School football team, the winner of "Sensation 2020" tournament in 2016, for over 10 years. Moreover, TDB sponsored the "Special Complex for Training Education of Children and Youth's team. We truly believe that these young athletes will represent our country at international competitions and achieve greater success in the future.

During the "Support the Herders" campaign, TDB purchased handmade wear for the life-stocks from The Special Complex for the Training Education of Children and Youth.

Junior Customer ceremonial event from TDB has been organized for the 4th year, in 2016.

FINANCIAL HIGHLIGHTS

MNT Billion

Assets	2013	2014	2015	2016
Cash and due from banks	1,090.2	1,054.7	695.0	1,188.8
Investment securities	885.1	908.7	1,412.5	1,525.4
Investment in associates and joint ventures	10.4	14.5	46.8	59.5
Loans and advances, net	2,530.6	2,777.2	2,645.0	2,835.2
Bills purchased under resale agreements	-	-	99.8	-
Subordinated loans	7.0	4.0	4.0	4.0
Property and equipment, net	153.3	298.0	204.9	333.6
Intangible assets, net	4.3	4.5	1.4	5.0
Investment properties	33.4	33.7	99.8	88.9
Foreclosed real properties, net	6.1	1.0	1.4	2.2
Current tax assets	-	5.7	-	-
Other assets	403.7	311.0	333.5	602.5
Total assets	**5,124.1**	**5,413.2**	**5,544.1**	**6,645.2**

MNT Billion

Liabilities	2013	2014	2015	2016
Deposits from customers	2,139.7	2,533.6	2,210.0	2,415.5
Deposits and placements by banks and other financial institutions	172.1	120.0	112.8	143.2
Bills sold under repurchase agreements	372.7	-	99.8	130.0
Borrowings	1,157.1	1,107.3	1,012.4	1,392.2
Current tax liabilities	7.6	0.4	4.4	1.5
Debt securities issued	460.6	741.4	1,175.9	1,569.4
Other liabilities	379.2	279.2	231.0	209.4
Subordinated debt securities issued	66.0	75.4	29.9	24.9
Total liabilities	**4,755.0**	**4,857.2**	**4,876.2**	**5,886.0**
Shareholder's equity	**2013**	**2014**	**2015**	**2016**
Share capital	33.2	33.2	69.3	67.7
Revaluation reserves	18.6	153.6	135.3	127.0
Accumulated unrealised gain (loss) on available-for-sale financial	14.2	(27.5)	(23.8)	30.2
Accumulated unrealised gain on valuation of cash flow hedges	-	-	39.9	14.9
Retained earnings	301.6	395.0	445.2	516.6
Total equity attributable to equity holders of the Bank	367.5	554.4	665.9	756.4
Non-controlling interests	1.6	1.7	2.0	2.8
Total equity	369.1	556.0	667.9	759.2
Total liabilities and equity	**5,124.1**	**5,413.2**	**5,544.1**	**6,645.2**

CONSOLIDATED INCOME STATEMENT

MNT Billion

	2013	2014	2015	2016
Interest income	321.4	444.7	532.9	593.2
Interest expense	(200.7)	(296.5)	(358.5)	(400.8)
Net interest income	**120.7**	**148.2**	**174.3**	**192.4**
Net fee and commission income	21.5	27.4	29.4	30.6
Other operating income (net)	68.7	30.9	(15.2)	12.0
Net non-interest income	**90.2**	**58.2**	**14.2**	**42.6**
Operating income	**211.0**	**206.4**	**188.6**	**235.0**
Operating expenses	(44.5)	(68.8)	(91.4)	(92.7)
Share of profit (loss) of an associate	0.2	1.1	12.6	17.3
Reversal of (provision for) impairment losses	(8.3)	(44.7)	(47.0)	(92.0)
Profit before tax	**158.4**	**94.0**	**62.7**	**67.7**
Income tax expense	(19.2)	(0.5)	(1.3)	(0.2)
Net profit	**139.3**	**93.5**	**61.5**	**67.5**

MNT Billion

Ratios	2013	2014	2015	2016
Profitability				
Cost income ratio	21.1%	33.3%	48.5%	39.4%
Net interest Margin	4.4%	3.9%	4.1%	4.3%
ROE	37.9%	16.9%	9.2%	8.9%
ROA	2.7%	1.7%	1.1%	1.0%
Growth rate				
Asset growth	89.7%	5.6%	2.4%	19.9%
Loan growth	65.0%	9.7%	-4.8%	7.2%
Deposit growth	52.6%	18.4%	-12.8%	9.3%
Capital growth	53.9%	50.7%	20.1%	13.7%
Asset quality				
Loans to deposit ratio	119.1%	111.9%	124.1%	123.7%
Loans to asset ratio	49.7%	52.4%	49.5%	45.0%
Liquidity ratio	42.3%	41.3%	44.4%	47.1%
Capital				
Tier 1 Capital Adequacy Ratio	11.6%	13.0%	12.3%	11.2%
Capital Adequacy Ratio	15.1%	19.2%	16.7%	14.6%

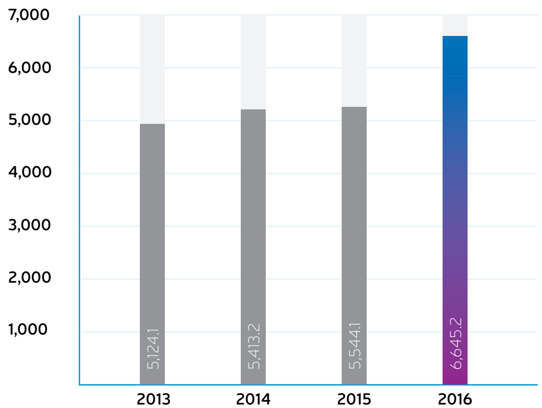
By the end of 2016, total asset reached MNT 6,645.2 billion, with a MNT 1,101.1 billion increase of 19.9 percent compared to the same period of last year. As for Loans and advances (net) amounted to MNT 2,835.2 billion, an increase of 7.2 percent compared to the previous year. Whereas, cash and due from banks increased by 71.1 percent and reached MNT 1,188.8 billion.

Total liabilities reached MNT 5,886.0 billion, with an increase of 20.7 percent. While Deposits from customers and borrowings reached MNT 2,415.5 billion, MNT 1,392.2, an increase of 9.3 percent, 37.5 percent respectively.

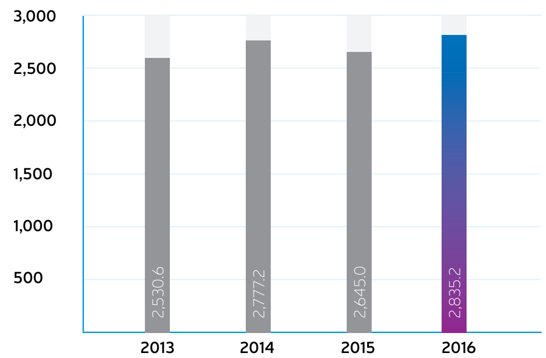
The total equity increased by 13.7 percent amounted MNT 759.2 billion, as retained earnings reached MNT 516.6 billion, an increase of MNT 71.4 billion, or 16.0 percent compared to the previous year.

By 31st December, 2016, interest income reached MNT 593.2 billion, with an increase of 11.3 percent, while interest expense reached MNT 400.8 billion, an increase of 11.8 percent. Net interest income reached MNT 192.4 billion, operational income reached MNT 235.0 billion and net profit resulted MNT 67.5 billion in the reporting year.

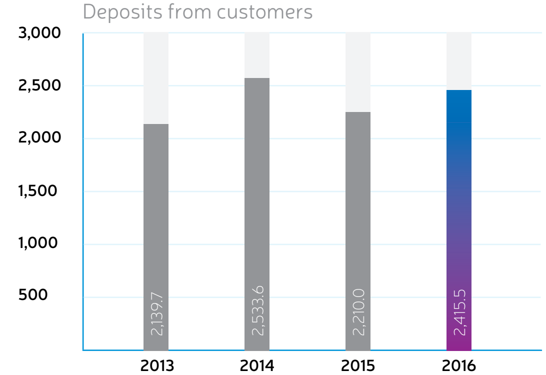
Total Asset



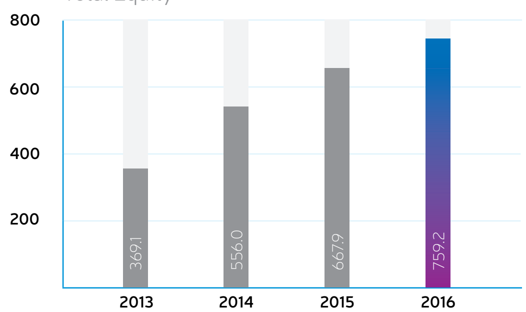
Net Loan and Advances



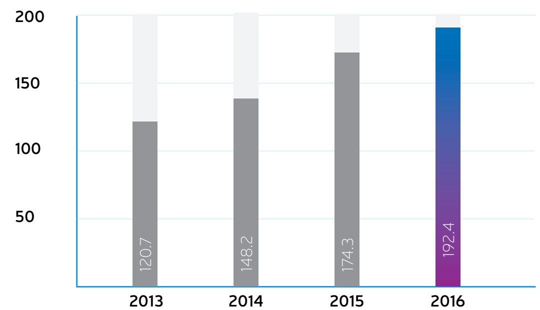
Deposits from customers



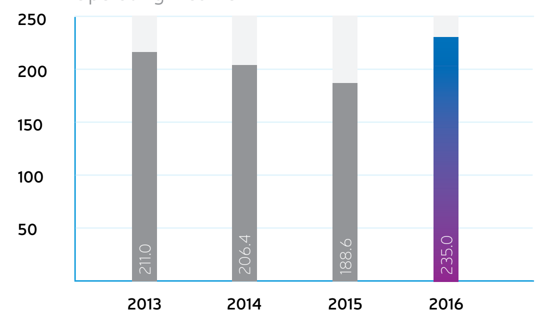
Total Equity



Net interest income



Operating income



HUMAN RESOURCE MANAGEMENT

In 2016, TDB recruited and newly appointed total of 151 employees. In order to improve human resource management, provide current employees with opportunity to work steadily, efficiently and continuously improve their skill, we implemented below programs.

Supporting career development

In order to support career development of the current employees, 58 percent of the vacant positions were filled by existing employees and number of the promoted employees were increased by 27 percent, indicating that one out of ten employees of the bank was promoted. As a result of implementing the policy of encouraging current employees to work with stability and efficiently, average employment year of the bank was increased to 6 years, which was 8 months increase compared to the last year.

Training and personal growth of the employees

We have systemized the operation of training the employees and implemented numerous programs, ensuring their personal growth. For example:

- Succession program;
- Career development program;
- Program to develop future Senior managers and Directors;
- Program to improve foreign language skills

Total of 226 training sessions were conducted this year and 4,483 (recurring number) employees were attended the sessions.

Salary and social welfare

By improving salary system, successfully completing the work of matching it with the performance of each employee and utilizing important tool of promoting the non-salary incentive, state orders and medals were awarded to total of 18.6 percent of the employees. Moreover, we have provided various supports to young employees, implementing apartment allocation program and other programs directed to employees families.

Besides, State Social Insurance General Office highly valued TDB's human resource management and awarded TDB with "**BEST NATIONAL EMPLOYER - BEST PAYING INSTITUTION OF SOCIAL SECURITY PAYMENT**" in 2016.

In this reporting year, we have expanded the operation of employee health funds, organising numerous health caring events, which includes medical check and professional advise from doctors.

Promoting new ideas and initiatives of employees

With purpose of encouraging new ideas and incentives, **"TDB 2020 project competition"**-was organized within the staff, vast number of project ideas were presented from employees. Outstanding projects were awarded and implementation possibilities were given.

In order to promote TDB culture, increase employee satisfaction and create positive attitude, **"Gratitude"** and **"Good deed"** campaigns were organized for the 3rd consecutive year collecting donations for social charity projects.

02

BUSINESS OPERATIONS

RETAIL BANKING

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

Started offering 5% interest rate mortgage loans to our clients

In March 2016, "Housing Mortgage Loan Program" was amended and approved by Governor of Bank of Mongolia and "Housing Mortgage Loan Program with 5% of Annual Interest Rate" was initiated. TDB has provided mortgage loans with 5% annual interest rate to 495 new borrowers and reduced annual interest rate to 5% for existing 175 borrowers.

Organized "Client forum 2016" in Dornod province

"Client forum 2016" was organized in Dornod province within the scope of the celebration of 23rd anniversary of Dornod branch opening. In the forum, over 70 corporates and retail clients of Dornod province participated and information was provided on the savings products, online banking service and loan products. Furthermore, during the event the bank has provided professional advice on how to solve financial issues which was crucial in supporting their business and strengthening the business relationship with clients.

Launched "MoneyGram self service"

For the purpose of increasing the efficiently of the international money transfer services over MoneyGram without depending on bank operating hours, the bank has implemented the MoneyGram self - service which enable clients to transfer money using their TDB online service over smart phone or computer. The service was officially launched on October 5, 2017 which is a first time in the Mongolian banking sector to provide this service. Furthermore, the bank is working to launch the MoneyGram self service money transfer service through ATM and other technology.

Signed Memorandum of Understanding on project "Reach" with International Development Agency of the U.S

The bank signed Memorandum of Understanding with non-governmental organization "Development Solution", implementer of project "Reach" of International Development Agency of the U.S. The purpose of the MOU is to support small and medium enterprises and business by providing training, seminars, and meetings designed to share information of the bank loan service, financing programs, and assist in improving the ability of small and mid-size companies' access to the credits by advising them how to meet the loan application requirements.

Supported "Good share" program

The bank facilitated the requests received from clients' to sell 30% of 1,072 shares of "Erdenes Tavan Tolgoi" at 933 tugrug per share totaling to MNT 300,426 per portfolio. And provided smooth transaction to transfer the proceeds received from Mongolian government to the client's accounts.

Launched a comprehensive pension product on the market

TDB has launched a comprehensive pension product including personal pension account, pension savings account with competitive interest rates and pension backed loan with flexible terms for the clients who wish to receive their pension through TDB.

Celebrated "World Savings Day" with Mongolians in overseas

On October 31, TDB celebrated World Savings Day for the third consecutive year and made open discussions with Mongolians who are working and studying in overseas through Facebook Live under the topic of "Opening online bank account and international money transfer service". Over 10,000 Mongolians from South Korea, Los Angeles, Chicago, Washington, Denver, New York, Sydney and Europe participated in the live discussion and received information how to open personal savings accounts online with high interest rate and about other method of saving money.

Providing insurance intermediary service successfully

In 2016, the bank successfully provided insurance intermediary service and made the 23.3% of total insurance intermediary revenue leading the market. This service enables our customers to directly access insurance service at our bank and its branches.

Updated our products to meet client needs

- Clients are now able to extend their term deposit through TDB Online.
- Launched 13-month term deposit and prepaid interest deposit denominated in USD and CNY
- TDB's POS Terminals supports Most Money NFC payment services, which enables our clients to execute the payments using their smart phones.
- Installed special ATM pin pads on TDB ATMs for visually impaired clients.

Improved the branches and settlement centers

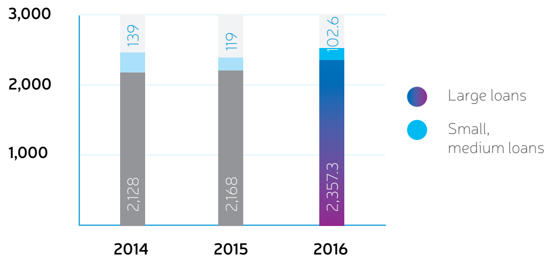
Opened two brand new branches with modern interiors in line with international standards and renovated five branches and services and created comfortable environment for accessing the banking services.

CORPORATE BANKING

As a leading bank in corporate banking market, TDB services to major Mongolian industries including manufacturing, trading, communications, mining, construction, processing industry, health, education, energy, tourism and agriculture, through our reliable and innovative products and services contributing to the development of the country.

Even though, most businesses experienced a challenging year with decreased revenues and reduced profits due to an economic slow-down, decreased FDI as well as import, and depreciation of tugrug against major currencies, TDB successfully maintained its leading position in the market. TDB's large, small and medium-sized loans' portfolio increased by 7.6 percent reaching MNT 2.4 billion compared to the previous year.

Large and small and medium-sized Outstanding Loans /MNT billion/



Due to the uncertain economic conditions in 2016, the businesses had a tendency to cancel or postpone new investments to the business or construction projects or purchasing of properties. The bank was also conservative in financing high amount loans request with risk and advised its clients to defer the investment decision until the economy recovered, which helped the bank to successfully overcome the challenging year. Furthermore, the bank worked to support its clients by offering financing with lower interest and longer maturity.

This support enabled business owners to reduce their expenses while increasing their liquidity, which decreased the risk associated with non repayment or delay in repayment of the loan.

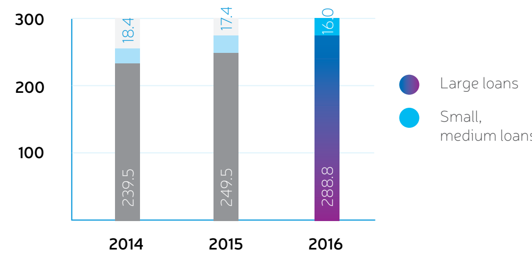
In line with above mentioned purpose, at the end of the reporting period TDB raised MNT 1,391.3 billion by successfully implementing 44 programs from over 30 national and international financial institutions including Development Bank of Mongolia (DBM), Japan International Cooperation Agency (JICA), Japan Bank for International Cooperation (JBIC), Asian Development Bank (ADB), Korean Export-Import Bank (KEXIM), and Taiwanese Export-Import Bank (TEXIM).

Being a successful co-implementer of State policy that is crucial to country's development, TDB participated as the sub lender in numerous programs implemented by Development Bank of Mongolia. The commitment to the projects were as follows, "Meat Project" MNT 11.8 billion, "Agricultural Production Stabilization Program" MNT 2.3 billion and "Wheat Sales Support Program from the Harvest of Year 2016" MNT 6.0 billion. Furthermore, TDB has successfully participated in the organization of the ACEM meeting by acting as the sub lender to the financing of housing for the international guests and representatives, in which the bank provided MNT 28.6 billion within the ASEM 150 billion program and MNT 65 billion for ASEM Villa program respectively.

The bank also on-lent MNT 600 million within the scope of SME Fund 70.0 billion program, MNT 9.7 billion within the frame of Industrialization program of 300 billion, MNT 6.0 billion to support Agriculture and Rural Development Projects of ADB and MNT 1.3 billion of JICA fund to our clients.

Furthermore, as an experienced bank that has been solely executing majority the Mongolia's foreign trade settlements, the bank has been awarded as the "The best trade finance service provider" again in 2016 with issuance of Letter of Credit (LC) and Guarantees totaling to MNT 956.3 billion to support our clients' trade finance, cash flow and improving financial capacity.

Large and small and medium-sized Outstanding Loans /MNT billion/



Based on our reputation in domestic and in international market, successful cooperation with our retail and corporate clients, good governance and successful team work, the bank experienced increase in interest revenue from Large and small and medium-sized clients by 14.2 percent increase or MNT 37.8 billion compared to the previous year and reached at MNT 304.8 billion.

Introduced Corporate Certificate of Deposit service to the market

TDB is offering a new Certificate of Deposit service to its corporate clients in order to provide efficient cash flow management and to increase interest revenue in cooperation with KDB Daewoo Securities.

TREASURY MANAGEMENT

Foreign exchange market

TDB held a market share exceeding 25.7% of domestic foreign exchange market in this reporting period and maintained its leading position in the market whilst boosted its foreign exchange volume by 5% compared to the year end of 2015. Despite our customers' businesses have been affected by current economic turmoil of Mongolia and gradual decrease of foreign trade turnover in recent years, TDB achieved to keep a target level of the foreign exchange volume, thanks to flexible offering on foreign exchange to its customers which strengthens more sustainable business relationships with them. Within the scope of the policy to provide whole banking services and products to its customers through the worldwide in continuous-, fast- and equal manner, TDB has been enhancing its online banking services and owing to further improvement of "TDB Online" service, a part of online banking services, a number of customers those settled foreign exchange through the online platform increased by 71% from the previous year.

Bullion market trading

Total volume of purchased physical gold by TDB increased by 29% on year-on-year basis or from 4.0 tons to 5.2 tons which was historical record for the Bank which commenced bullion business first among its peer banks. TDB occupied 30.1% of onward sales volume of physical gold to Bank of Mongolia by the year end of 2016 and proved its position on onshore bullion market as a leader. The rise of volume of purchased physical gold hugely influenced by provided flexible terms and conditions including relaxed pricing on physical gold and enhanced conditions of pre-financing to individuals which are the majority of bullion market participants. Further, the projected level is accomplished within the scope of a goal to increase the efficiency of the gold trading by combining trading of physical and non-physical gold.

Money market operation

TDB, same as previous years, actively participated in trading of Government bonds and Central bank bills, assets with higher liquidity, lower risk and tax-exempt interest income, in order to comply with regulatory minima set by Central bank and maintained its leading position on onshore money market. By allocating surplus assets on both domestic and international interbank money market in the most efficient manner, TDB achieved to hold 31.2% of total volume of domestic money market. Even though a financial year of 2016 was a challenging year where risk of international money market increased due to continuing uncertainties of major influential countries' Central bank policy and nervous situation of international financial market, 2016 was spectacular one to us, as we succeeded to broaden our business relationships with reputable international banks and financial institutions and to improve operation of bond purchase on secondary market of securities.

Asset and Liability management

In this reporting period, where the growth of Mongolian economy slowed down, TDB especially focused on enhancing managements of mid- and long term liquidity, interest rate and balance sheet while raising funds with longer terms and lower interest rates to contribute for increase in Bank's stable funding and improvement of long term liquidity of foreign currencies. As a result of appropriately taken asset and liability management, Bank's total asset and deposits from customers increased by 19.9% and 9.3% respectively in the reporting period regardless of the toughest challenges including gradually accelerated non-perfoming loans of banking sector, de-escalated loan granting and contracted foreign currency inflow. Owing to aforementioned achievement, TDB's market share in banking sector increased by 0.44% to 26.2% in terms of asset size which re-assured our position of market leader in banking sector.

Custodian Services

As one of the first custodian banks in the country, the bank has kept its leading position again in this financial year. The bank executed a "Membership Agreement", opened securities' accounts with the Mongolian Central Securities Depository and also opened an additional security account at Euroclear SA/NV for the purpose of safekeeping securities issued in international capital markets for our customers. Not only our existing customers, the bank can offer securities' safekeeping and other comprehensive customer services to international and domestic investors, institutional investors and asset managers as they trade in the global and domestic capital markets.

INTERNATIONAL BANKING, FOREIGN RELATIONS

Trade and Development Bank strives to expand its international operational horizon 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.

Introduced solution to manage account from abroad

In 2016 TDB introduced SWIFT Score service that allows customers to collect receivables through Direct Debit service, executing payments promptly from everywhere, and manage its account from abroad for its corporate customers, the introduction of SWIFT Score service brought next level development on the international remittance and payment.

As of the end of 2016, TDB is executing the customers international remittances and payments through 56 nostro accounts at 32 international reputable banks and 17 loro accounts of 11 international financial institutions with widest range of currencies to the over 150 banks in over 100 countries.

We aim to deliver most up-to date products and services to our customers using cutting-edge IT solutions of foreign payment settlement based on our 27-years solid experience in the field as a first Mongolian commercial bank that joined international payment system SWIFT.

TDB has been selected as the Clearing Bank for International Air Transport Association (IATA)'s operation in Mongolia

TDB has participated in and awarded with IATA's Clearing Bank Service tender and started to execute ticket sales revenue of airlines from December 2016. It allowed the payment and settlement between airlines and ticket sale agents to be executed securely and promptly. The bank provides most up to date, comprehensiev financial services to the participants, thus allows business cooperation with our customers in airtransport business to further develop and reach new heights, as well as airlines companies are enabled to receive ticket sales income in shorter period.

"International Banking Conference XXI" Saint Petersburg

In the reporting period, TDB participated in "Korea-Mongolia business forum" and "International Banking Conference-XXI" with arranged by Promsvyazbank and Bank of Mongolia and introduced current situation of Mongolian economy and financial sector and opportunities to increasing utilization of trade finance and import financing on the behalf of the bank which hugely contributed to broaden bilateral relationship with commercial banks of Russia, China and Korea.

Furthermore, TDB has received a funding of USD 20.0 million from China Development bank under the signed Memorandum of Understanding.

Ability to settle increased customer remittance as we opened USD denominated nostro account at New York branch of China Construction Bank and at Kookmin Bank of Korea and KRW denominated nostro account at Kookmin bank of Korea.

Utilization of trade finance credit line improved

The Bank fulfills its clients' demand on trade finance business with professionalism leveraging its current approved trade finance credit line of USD 658.4 million by over 49 international banks and financial institutions. By the end of 2016, total utilization increased by 16.7 percent compared to the previous financial year.

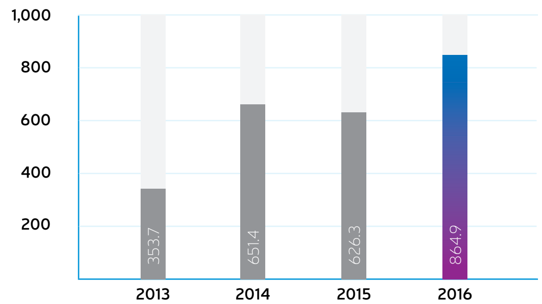
Trade finance credit line approved by international banks and financial institutions is mainly consumed by import letter of credit, advanced guarantee, trade financing and import loan.

TDB achieved to maintain its leading position by performing 61.8 percent of total trade finance related settlements.

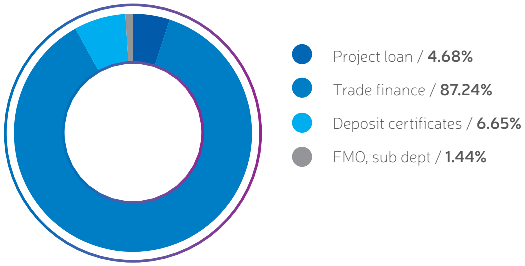
Total received funds from international banks and financial institutions under approved trade finance credit line reached to MNT 864.88 billion with a 38 percent increase. Trade finance loan accounted for 87.2 percent of total received fund which showed 19.3 percent increase compared to the previous year.

We achieved this due to an active cooperation with international banks and financial institutions to meet our clients' trade finance needs whilst supporting them through current economic conditions.

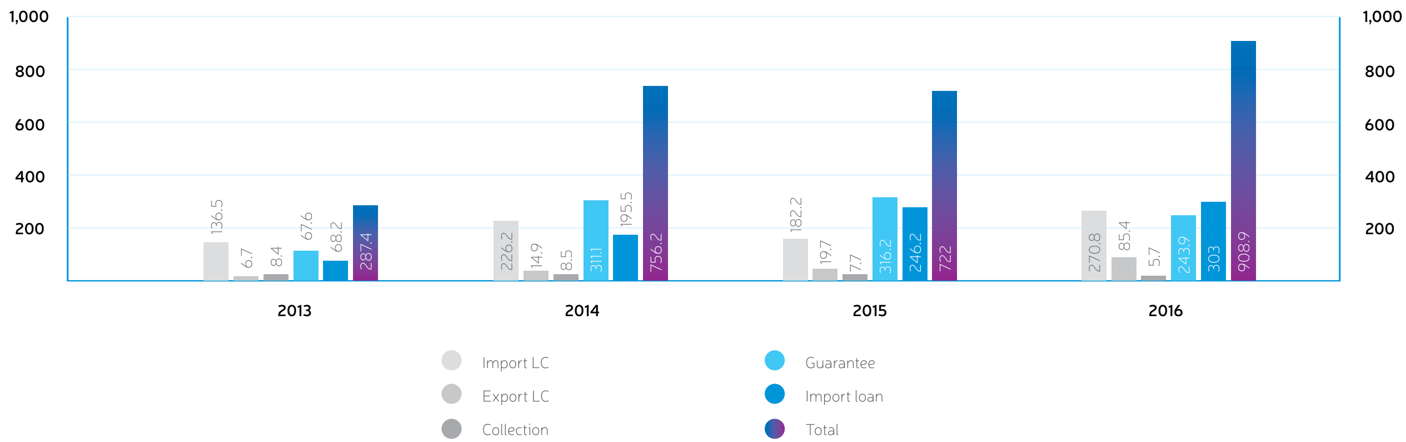
Total loan aquired from international financial institutions
/MNT billions/



Loans acquired from international financial institusions in 2016



Trade finance volume
/USD million/



TDB CAPITAL LLC

With dedication to foster its clients' business development and active participation in the financial markets, TDB Capital LLC, a wholly owned subsidiary of TDB, 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

The company was the first in Mongolia to implement an online trading system contributing to the development of domestic capital markets. TDB Capital LLC is constantly updating and improving the trading system, and during the year focused on improving ease-of-use, and reducing delay on transactions; and all of our clients who participate in the markets have signed up for the TDB Broker online system.

As our TDB's 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, as a leading participant in the domestic capital markets, TDB Capital LLC has executed total trading with amount of MNT 63 billion in 2016 which accounted for 15.1% of the total trade on the Mongolian Stock Exchange.

Investment Banking Services

TDB Capital LLC has successfully worked alongside reputable international investment banks as Joint Lead Manager for the Government of Mongolia's USD 500 million note issuance under the Global Medium Term Note Program and as underwriter – financial advisor for issuance of additional shares of state and private companies. Further, the company has also worked on private placement, pre-project financing advisory, investment due diligence and analysis during the year.

SOVEREIGN BOND OF MONGOLIA

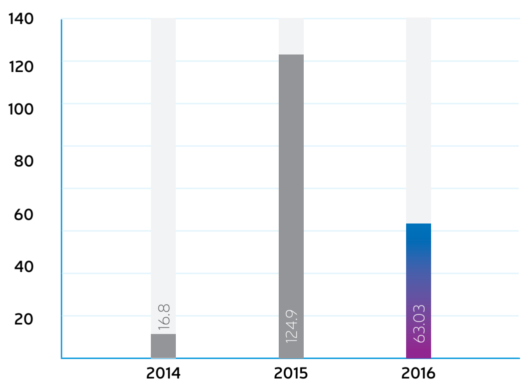
US$ 500.0 MILLION

within US$5000.0 millionGMTN program

Joint lead managers:

Credit Suisse, Deutsche Bank, ING, J.P.Morgan, TDB Capital, Golomt Bank

Securities trading
/MNT billions/



TDB LEASING LLC

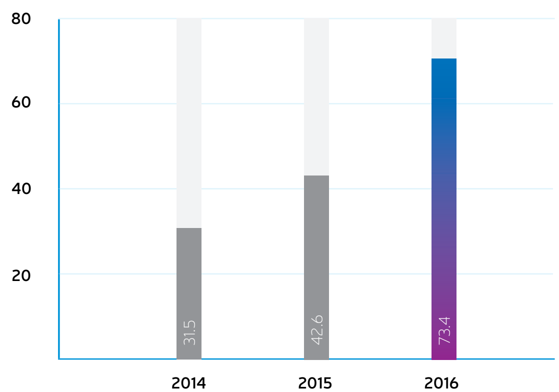
TDB Leasing LLC was founded in 2013 with joint venture among Trade and Development Bank of Mongolia, TDB Capital LLC of Mongolia and MG Leasing Corporation of Japan and is committed to providing tailored financial leasing services based on client's needs and encourage favorable business environment.

Financial leasing service

"TDB Leasing" LLC supports clients by offering financial leasing service for the latest and high-tec equipment in manufacturing, mining, construction, transportation, and agricultural sectors.

In 2016, the company financed MNT 38.5 billion to new clients and total volume of financial leasing accounted MNT 73.4 billion, which makes the company one of the largest leasing providers in Mongolia.

Total amount of financial leasing services /MNT billion/



Financial leasing service

"TDB Leasing" LLC supports client's needs by offering financial leasing service to new technologies in manufacturing, mining, construction, transportation, and agriculture sector.

In 2016, the company financed MNT 38.5 billion to new clients and total volume of financial leasing accounted MNT 73.4 billion, which makes the company one of the biggest leasing providers in Mongolia.

Partners and suppliers

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

Shima Seiki
Хэт Моторс
Za Mine
Transwest Mongolia LLC
Niseech Co.,LTD
Wagner
Ammac MGL
Sandvik
Хера Холдинг
Everdigm
Hyunday
AODE
MSM
Infinite Solutions

RISK MANAGEMENT

The bank is implementing Operational Risk Management Policy through assessing the potential risks in accordance with international standards that could affect products, services and operations of the bank, and analyzing risk impact, probability of occurrence, and assessing efficiency of risk monitoring, and defining risk level to formulate risk mitigation.

Implemented a rational Credit Risk Management Policy

In 2016 the bank focused on maintaining loan portfolio risk in prudent level, improving asset quality control, improving the coverage of loan loss reserve, as well as improving the bank's risk tolerance. As a result, loan loss coverage reached 70%, and in accordance with the renewed Regulation on asset classification, provisioning and its disbursement, TDB improved methodologies of asset classification, provisioning, as well as risk reporting.

Renewed policy and procedures for loan underwriting

Taking into account the current economic state, the bank improved its policy, procedure, guidelines of credit related activities, introduced automation, improvement on every step of loan underwriting process, and introduced digital loan decision, consequently promptness of banking services have improved with paperless process.

Improved Market Risk Management Procedure

TDB is the first bank to have complied permission from Bank of Mongolia to apply Value at risk (VaR) method to monitor risk of foreign currency exchange rate with regard to foreign currency funding and foreign currency loans. We calculate maximum potential loss with 99% level of confidence for open position of the bank with EGARCH, EWMA techniques. Moreover the bank has all the time being in compliance with prudential requirements imposed by central bank on "Bank's single foreign currency open position no higher than 15% of bank's adjusted capital, and 40% for total foreign currencies.

Liquidity Risk Management

The bank has fully complied with the short term and long term liquidity criteria of BASEL-III*, calculated and reported cash inflow and outflow differential, conducted stress test and scenario analysis as necessary. For the reporting period the bank has complied all the time with liquidity requirements, consequently have not faced any liquidity pressure.

**A comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision*

Operational Risk Management

In order to improve operational risk assessment methodologies further, procedures of risk reporting and monitoring the bank developed a new model for prioritizing all banking products and services by its risk level.

In 2016, as part of implementing PCI DSS, international security standards for payment, under the requirement of protecting cardholders' information, the bank conducted a comprehensive review on information technology and information security.

Anti-money laundering/combating the financing of terrorism

The bank, under the ordinary course of its banking operations including provision of banking products and services to our customers, cooperation with international financial institutions, complies with international standards, regulations, on Anti-money laundering/combating the financing of terrorism at all times.

TDB is the first bank to introduce a monitoring program on Anti-money laundering/combating the financing of terrorism, in line with international standards, based on "Know Your Customer" principles.

In 2016, Financial Action Task Force (FATF)-Asia Pacific Group (APG), conducted a nation-wide risk assessment on the Anti-money laundering/combating the financing of terrorism, the bank presented its internal audit program and implementation, on the Anti-money laundering/combating the financing of terrorism and get assigned with "good" evaluation.

Moreover, TDB became the first bank to conduct risk assessment on all of its customers in accordance with international standards.

INFORMATION TECHNOLOGY

TDB primarily focuses implemented several internal and external projects on applying technology and software updates aligned with international standards, providing customers with high quality, fast and risk free services, automating internal operations, increasing the productivity of our employees.

International standard payment services

- Increased the brand awareness of issuing and accepting the international chip cards with high encryption and implemented the platform of utilizing a possibility of POS machines to accept contactless payments from mobile phones.
- Launched online payment and transactions services without any bank restrictions and made the Mongolian bank issued cards available to be accepted for online sales.

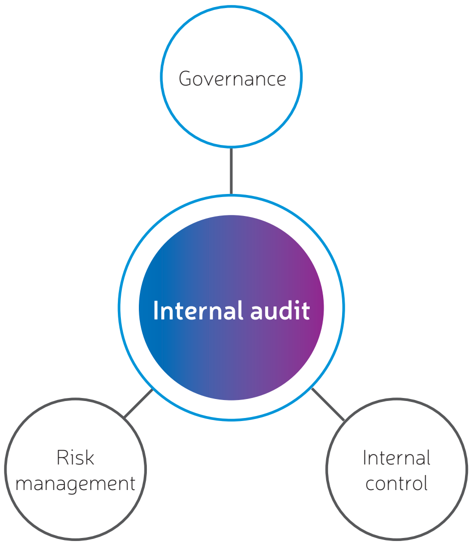
Improved security of online and offline data

We are constantly updating our software used for our operations, and using latest sophisticated technologies in our information database, servers and equipments. For instance, all our computers and ATM softwares were updated to Windows 7, Windows 10 and we have started using systems of Oralce 12c, Windows server 12 R2 x 64 version, Dell Storage SC 4020 Compellent.

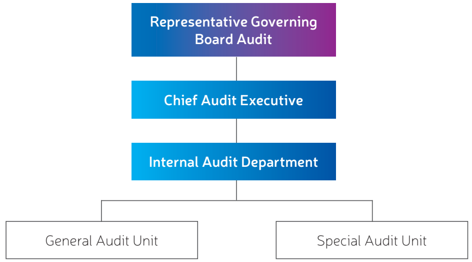
INTERNAL AUDIT ACTIVITIES

Internal audit is the engine for self –improvement of the organization.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.



Trade and Development Bank of Mongolia's internal audit reports \reports to Representative Governing Board, Audit Committee and informs findings to Executives. Internal Audit conducts audit in all banking operations and advises them improve their operations.



In the reporting period the Internal Audit Department has completed following activities:

- Added new types of audits and improved audit advisory function to a new level.
- TDB became a member of the Institute of Internal Auditors, an international organization, that participates actively in the operation of sub-organization in Mongolia, through international best practices, latest news and information and conducted the audit in accordance with International standards on internal auditing;

We continuously improve our audit quality, making improvement on the process of IT auditing and increasing our productivity. Moreover, we have conducted researches on domestic and international levels to develop IT audit and defined our audit methodologies, implemented them into our operations based on the results.

In the recent years, with continuous auditing, our banking operations at any department, unit has been improved and been evaluated with a better performance on the 2106 report.

Trade and Development Bank of Mongolia aims to protect our clients' interests, provide high quality services of auditing aligned at international standard levels to our shareholders and management, moreover improve IT auditing performance, development, implement auditing to banking reform process, and create value.

CORRESPONDENT BANKS

Currency	No	Correspondent Banks	SWIFT CODE
USD	1	STANDARD CHARTERED BANK	SCBLUS33
	2	CHINA CONSTRUCTION BANK	PCBCUS33
	3	COMMERZBANK AG	COBADEFF
	4	AO UNICREDIT BANK	IMBKRUMM
	5	OJSC SBERBANK, BAIKALSKY OFFICE	SABRRU66
	6	JSC RUSSIAN AGRICULTURAL BANK	RUAGRUMM
	7	JSC VTB Bank	VTBRRUMM
	8	Russian Export Import Bank (ROSEXIM Bank)	EXIRRUMM
	9	OCBC BANK	OCBCSGSG
	10	KEB HANA Bank	KOEXKRSE
	11	Kookmin Bank, Seoul	CZNBKRSE
	12	CHINA CONSTRUCTION BANK, NEIMENGGU BRANCH	PCBCCNBJNME
	13	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ICBKCNBJNMA
	14	BANK OF CHINA (HONG KONG) LIMTED	BKCHHKHH
	16	AGRICULTURAL BANK OF CHINA, NEIMENGGU BRANCH	ABOCCNBJ050
EUR	17	COMMERZBANK AG	COBADEFF
	18	ING BELGIUM NV/SA	BBRUBEBB010
	19	Russian Export Import Bank (ROSEXIM Bank)	EXIRRUMM
JPY	20	BANK OF TOKYO-MITSUBISHI UFJ LTD	BOTKJPJT
	21	SUMITOMO MITSUI BANKING CORPORATION	SMBCJPJT
	22	MIZUHO CORPORATE BANK LTD	MHCBJPJT
GBP	23	STANDARD CHARTERED BANK PLC	SCBLGB2L
	24	BANK OF TOKYO-MITSUBISHI UFJ LTD	BOTKGB2L

CHF	25	COMMERZBANK AG	COBADEFF
AUD	26	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	ANZBAU3M
KRW	27	KEB HANA Bank	KOEXKRSE
	28	Kookmin Bank, Seoul	CZNBKRSE
CNY	29	AGRICULTURAL BANK OF CHINA, NEIMENGGU BRANCH	ABOCCNBJ050
	30	CHINA CONSTRUCTION BANK, ERLIANHAOTE SUB BRANCH	PCBCCNBJNME
	31	BAO SHANG BANK	BTCBCNBJ
	32	Pudong Development Bank of Shanghai	SPDBCNSH
	33	BANK OF CHINA (HONG KONG) LIMTED	BKCHHKHH
	34	BANK OF CHINA, ERLIAN BRANCH	BKCHCNBJ89N
	35	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ICBKCNBJNMA
	36	BANK OF INNER MONGOLIA	HSSYCNBH
CAD	37	COMMERZBANK AG	COBADEFF
RUB	38	ZAO UNICREDIT BANK	IMBKRUMM
	39	OJSC SBERBANK, BAIKALSKY OFFICE	SABRRU66
	40	JSC VTB Bank	VTBRRUMM
	41	JSC RUSSIAN AGRICULTURAL BANK	RUAGRUMM
	42	Russian Export Import Bank (ROSEXIM Bank)	EXIRRUMM
NZD	43	ANZ Bank New Zealand Limited	ANZBNZ22
HKD	44	BTHE BANK OF TOKYO-MITSUBISHI UFJ	BOTKHKHH
SGD	45	OCBC BANK	OCBCSGSG
SEK	46	NORDEA BANK AB	NDEASESS
TRY	47	TURKIYE IS BANKASI A.S.	ISBKTRIS

03

REPORT OF EXTERNAL AUDITOR

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Financial Statements

31 December 2016 and 2015

(With Independent Auditors' Report Thereon)

Trade and Development Bank of Mongolia LLC
Corporate Information

Registered office and principal place of business:	Peace Avenue 19, principal place of business Sukhbaatar district, 1st khoroo, Ulaanbaatar, 14210 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 O. Orkhon, being the directors and executives of Trade and Development Bank of Mongolia LLC (the "Bank"), and D. Yanjmaa, being the officer primarily responsible for the consolidated financial statements of the Bank and its subsidiaries (together the "Group"), do hereby state that, in our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and 2015 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.

Chairman

D. Erdenebileg

Excecutive Vice Chairman

R. Koppa

CEO

O. Orkhon

Director of Financial Management and Control Department

D. Yanjmaa

Ulaanbaatar, Mongolia

Date: 31 March, 2017

Independent Auditors' Report

Opinion

We have audited the 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 2016 and 2015, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and 2015, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as modified by Bank of Mongolia ("BOM") guidelines.

Basis for Opinion

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

Emphasis of Matters

We draw attention to Note 39 to the consolidated financial statements, which describes that in February 2017 the International Monetary Fund ("IMF") and the Government of Mongolia agreed a three year bailout programme which is subject to approval by the Mongolian Parliament and by the IMF's Executive Board. The full implications of this programme, and the related measures and impact on the Mongolian financial sector are as yet unclear. This creates a significant uncertainty the impact of which will only be realized with time. The financial impact resulting from this bailout programme on the Group's financial statements cannot be reasonably estimated at this time, therefore no adjustments for this matter were recorded to the Group's consolidated financial statements. Our opinion is not qualified in respect of this matter.

We draw attention to Note 42 to the consolidated financial statements. Mongolia's Parliament Standing Committee issued a report in relation to acquisition of 49 percent of common stock of Erdenet Mining Corporation LLC. (EMC), where the Group is alleged to improperly have extended loans to acquire companies. At this time there is uncertainty regarding the potential adverse impact to the Group. Our opinion is not qualified in respect of this matter.

Key Audit Matters

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

Allowance for loan losses

Refer to Note 7 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Under IFRS as modified by BOM guidelines, the Group is required to determine the classification of loans and provisioning amount considering quantitative and qualitative factors. This allowance for loan losses was significant to our audit because the balance of MNT 153,566,637 thousand as of 31 December 2016, is material to the financial statements. In addition, the Group's assessment process is complex and judgmental and is based on quantitative factors such as delinquency and qualitative factors such as a borrower's financial and economic status.	Our audit procedures included, among others, performing credit file reviews on a sample basis to test appropriateness of the loan classification. We tested the accuracy of the delinquency information by testing relevant IT application controls and tested the Group's assessment of the qualitative factors by challenging key assumptions applied by the Group and comparing the Group's classification against our understanding of the relevant industries and business environment, and the requirements of the Bank of Mongolia's Provisioning Guidelines.

Construction-in-progress

Refer to Note 10 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Construction in progress is significant to our audit because the balance of MNT 142,199,641 thousand as of 31 December 2016, is material to the financial statements and significantly increased from the prior year.	Our audit procedures included interviews with the Group's management and the management of the Group's contractor responsible for the construction in order to understand the status of the construction-inprogress, inspection of the construction contracts and payment evidence, and external confirmation of payments made in accordance with the construction contract.

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Matter

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

The engagement partner on the audit resulting in this independent auditors' report is Jae-Beom Choi.

KPMG Samjong Accounting Corp.
31 March, 2017
Seoul, Korea

This report is effective as at 31 March 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Financial Position

As at 31 December 2016 and 2015

	Note	2016 MNT'000	2015 MNT'000
Assets			
Cash and due from banks	4	1,188,822,410	694,959,701
Investment securities	5	1,525,435,217	1,412,539,922
Investment in associates and joint ventures	6	59,490,789	46,763,866
Loans and advances, net	7	2,835,167,306	2,644,979,616
Bills purchased under resale agreements	8	-	99,799,000
Subordinated loans	9	4,000,000	4,000,000
Property and equipment, net	10	333,559,483	204,884,777
Intangible assets, net	11	5,048,116	1,449,739
Investment property	12	88,923,950	99,789,000
Foreclosed real properties, net	13	2,194,609	1,370,810
Other assets	14	602,543,026	333,547,874
Total assets		6,645,184,906	5,544,084,305
Liabilities and shareholders' equity			
Liabilities			
Deposits from customers	15	2,415,529,106	2,209,953,463
Deposits and placements by banks and other financial institutions	16	143,207,671	112,754,972
Bills sold under repurchase agreements	17	129,960,388	99,799,000
Borrowings	18	1,392,176,891	1,012,394,089
Current tax liabilities		1,524,308	4,385,983
Debt securities issued	19	1,569,366,930	1,175,921,345
Subordinated debt securities issued	20	24,895,300	29,939,700
Other liabilities	21	209,373,587	231,003,212
Total liabilities		5,886,034,181	4,876,151,764
Equity			
Share capital	22	50,000,011	50,000,011
Share premium		19,272,456	19,272,456
Capital adjustments	24	(1,583,600)	-
Revaluation reserves	10, 25	126,992,124	135,298,874
Accumulated unrealised gain (loss) on available-for-sale financial assets	25	30,219,254	(23,831,129)
Accumulated unrealised gain on valuation of cash flow hedges	25	14,905,402	39,938,362
Retained earnings		516,572,740	445,209,993
Total equity attributable to equity holders of the Group		756,378,387	665,888,567
Non-controlling interests		2,772,338	2,043,974
Total equity		759,150,725	667,932,541
Total liabilities and equity		6,645,184,906	5,544,084,305

See accompanying notes to the consolidated financial statements.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

As at 31 December 2016 and 2015

	Note	2016 MNT'000	2015 MNT'000
Interest income	26	593,217,355	532,856,753
Interest expense	27	(400,832,691)	(358,520,676)
Net interest income		192,384,664	174,336,077
Net fee and commission income	28	30,618,600	29,419,494
Other operating income (loss), net	29	12,021,005	(15,192,458)
Net non-interest income		42,639,605	14,227,036
Operating income		235,024,269	188,563,113
Operating expense	30	(92,650,037)	(91,417,672)
Share of profit of associates and joint ventures	6	17,296,485	12,569,455
Provision for impairment losses	31	(91,997,632)	(46,976,039)
Profit before tax		67,673,085	62,738,857
Income tax expense	33	(212,876)	(1,263,569)
Net profit for the year		67,460,209	61,475,288
Other comprehensive income for the year:			
Items that will never be reclassified to profit or loss			
Net change in revaluation reserves of property and equipment	10, 25	(7,317,887)	7,943,000
Items that are or may be reclassified to profit or loss			
Net unrealised change in fair value of available-for-sale financial assets	25	54,050,383	3,656,568
Net unrealised gain (loss) on valuation of cash flow hedges	25	(25,032,960)	39,938,362
Other comprehensive income		21,699,536	51,537,930
Total comprehensive income for the year		89,159,745	113,013,218
Profit attributable to:			
Equity holders of the Group		67,965,541	61,094,198
Non-controlling interests		(505,332)	381,090
Net profit for the year		67,460,209	61,475,288
Total comprehensive income attributable to:			
Equity holders of the Group		89,665,077	112,632,128
Non-controlling interests		(505,332)	381,090
Total comprehensive income for the year		89,159,745	113,013,218

See accompanying notes to the consolidated financial statements.

		Attributable to equity holders of the Group									(Unit : MNT'000)
	Note	Share capital	Share premium	Treasury shares	Revaluation reserves	Accumulated unrealised gain(loss) on available-for-sale financial assets	Accumulated unrealised gain on valuation of cash flow hedges	Retained earnings	Total	Non-controlling interests	Total equity
1 January 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	10, 25	-	-	-	(18,347,109)	-	-	26,290,109	7,943,000	-	7,943,000
Net unrealised gain on valuation of cash flow hedges	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

		Attributable to equity holders of the Group									(Unit : MNT'000)
	Note	Share capital	Share premium	Capital adjustment	Revaluation reserves	Accumulated unrealised gain(loss) on available-for-sale financial assets	Accumulated unrealised gain on valuation of cash flow hedges	Retained earnings	Total	Non-controlling interests	Total equity
1 January 2016		50,000,011	19,272,456	-	135,298,874	(23,831,129)	39,938,362	445,209,993	665,888,567	2,043,974	667,932,541
Total comprehensive income											
Net profit for the year		-	-	-	-	-	-	67,965,541	67,965,541	(505,332)	67,460,209
Other comprehensive income											
Net unrealised change in fair value of available-for-sale financial assets	25	-	-	-	-	54,050,383	-	-	54,050,383	-	54,050,383
Net change in revaluation reserves of property and equipment	10, 25	-	-	-	(8,306,750)	-	-	988,863	(7,317,887)	-	(7,317,887)
Net unrealised loss on valuation of cash flow hedges	25	-	-	-	-	-	(25,032,960)	-	(25,032,960)	-	(25,032,960)
Total other comprehensive income		-	-	-	(8,306,750)	54,050,383	(25,032,960)	988,863	20,115,936	-	21,699,536
Transactions with shareholders											
Change due to business combination		-	-	-	-	-	-	586,060	586,060	2,814,643	3,400,703
Subsidiary's acquisition of treasury shares	24	-	-	(1,583,600)	-	-	-	-	(1,583,600)	-	(1,583,600)
Other changes		-	-	-	-	-	-	1,822,283	1,822,283	(1,580,947)	241,336
31 December 2016		50,000,011	19,272,456	(1,583,600)	126,992,124	30,219,254	14,905,402	516,572,740	756,378,387	2,772,338	759,150,725

	Note	2016 MNT'000	2015 MNT'000
Cash flows from operating activities:			
Net profit for the year		67,460,209	61,475,288
Adjustments for:			
Depreciation and amortisation	10, 11, 30	12,310,763	11,379,427
Share of profit of associates and joint ventures	6	(17,296,485)	(12,569,456)
Gain on disposition of securities	29	(21,827,163)	(411,065)
Gain on disposition of investment in associates and joint ventures	29	(8,907,904)	-
Net interest income	26, 27	(192,384,664)	(174,336,077)
Income tax expense	33	212,876	1,263,569
Loss on disposition of property and equipment	29	9,348	1,777,788
Loss on disposition of investment property	29	1,252,400	-
Property and equipment written off	30	9,380	10,376,532
Investment property written off	30	1,151,774	-
Provision for impairment losses	31	91,997,632	46,976,039
Valuation loss (gain) on investment property	12, 29	7,792,650	(4,654,281)
Impairment losses of goodwill	11, 30	-	2,803,205
Personnel expense	30	404,458	-
Operating profit before changes in operating assets and liabilities:		(57,814,726)	(55,919,031)
Decrease (Increase) in balances with BOM	4, 35	(746,435)	24,245,240
Decrease (Increase) in loans and advances		(343,124,012)	84,864,873
Decrease (Increase) in bills purchased under resale agreement	8	99,799,000	(99,799,000)
Decrease (Increase) in other assets(*)	14	(194,115,525)	52,800,779
Increase (Decrease) in deposits from customers	15	205,575,643	(323,653,538)
Increase (Decrease) in deposits and placements by banks and other financial institutions	16	30,452,699	(7,252,364)
Decrease in other liabilities(*)	21	(42,727,799)	(43,326,037)
Increase in current tax		-	5,676,348
Interest received		548,122,973	497,315,781
Interest paid		(379,865,380)	(363,342,585)
Income taxes paid		(3,074,551)	(958,332)
Net cash flows used in operating activities		(137,518,113)	(229,347,866)
Cash flows from investing activities:			
Purchase of investment securities	5	(373,254,578)	(1,291,419,591)
Disposal of investment securities	5	344,557,792	791,847,245
Purchase of investment in associates and joint ventures	6	(292,383)	(19,664,333)
Disposal of investment in associates and joint ventures	6	13,769,849	-
Proceeds from disposal of Investment properties	12	161,600	-
Purchase of property and equipment	10	(146,672,015)	(9,501,274)
Proceeds from disposal of property and equipment	10	420,866	26,591,946
Purchase of intangible assets	11	(5,436,596)	(680,125)
Proceeds from disposal of foreclosed real properties	13	618,077	-
Net cash flows used in investing activities		(166,127,388)	(502,826,132)

See accompanying notes to the consolidated financial statements.

	Note	2016 MNT'000	2015 MNT'000
Cash flows from financing activities:			
Net proceeds from bills sold under repurchase agreements	17	30,161,388	99,799,000
Proceeds from borrowings	18	1,040,459,826	826,022,999
Repayments of borrowings	18	(660,677,024)	(920,957,874)
Proceeds from debt securities issued	19	482,023,478	962,349,391
Repayments of debt securities issued	19	(88,577,893)	(527,782,891)
Repayment of from subordinated debt securities issued	20	(5,044,400)	(45,411,869)
Sales of treasury shares	23	-	2,620,626
Subsidiary's acquisition of treasury shares	24	(1,583,600)	-
Net cash flows provided by financing activities		796,761,775	396,639,382
Net Increase (decrease) in cash and cash equivalents		493,116,274	(335,534,616)
Cash and cash equivalents at beginning of year		398,172,183	733,706,799
Cash and cash equivalents at end of year	35	891,288,457	398,172,183

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

1 Organisation and business

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

Controlling company

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

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

Subsidiaries included in consolidation

(i) TDB Capital LLC

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

(ii) National News Corporation LLC

National News Corporation LLC ("NNC", formerly TDB Media LLC) was established in 2011.The Group has been cooperating with Bloomberg L.P. to broadcast international financial news through NNC, which is a media company licensed by the Mongolia Telecommunication Regulatory Commission to operate Bloomberg TV Mongolia in Ulaanbaatar since 2011. On 19 November 2013, the Group obtained control of TDB Media LLC ("TDBM"). In March 2016, TDBM merged with NNC by newly issuing 340,400 ordinary shares. Following the business combination, TDBM changed its name to NNC and the Group's ownership interest in NNC decreased from 84.4% to 69.8%. After the business combination, NNC acquired 10,000 treasury shares from UB City Bank and the Group's ownership interest increased from 69.8% to 75.9%.

1 Organisation and business (continued)

Condensed financial statements of subsidiaries as at 31 December 2016 and 2015, and for the years ended 31 December 2016 and 2015 were as follows:

	2016 MNT'000		2015 MNT'000	
Subsidiaries	Asset	Liability	Asset	Liability
TDBC	39,188,526	6,095,058	32,208,496	44,162
NNC	19,870,788	7,911,428	14,397,058	1,732,424

	2016 MNT'000		2015 MNT'000	
Subsidiaries	Operating revenue	Net income	Operating revenue	Net Income
TDBC	1,403,632	618,589	1,825,636	945,101
NNC	4,114,361	(2,766,693)	3,727,957	819,426

Associates and joint ventures

(i) Mongol General Leasing LLC

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

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

(ii) MIK Holding JSC

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

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

(iii) JCDecaux LLC

JCDecaux LLC is principally engaged in the business of outdoor advertising. JCDecaux LLC is a limited liability company, incorporated and domiciled in Mongolia on 28 April 2014 as a joint venture between JCDecaux Asia Pte. Ltd., and NNC. Outdoor advertising services mainly comes from sales of advertising spaces on street furniture equipment. JCDecaux LLC is the exclusive operator of bus shelters, taxi shelters and city information panels in Ulaanbaatar which cover all major roads of the city. In addition, the company maintains daily inspection of its media.

1 **Organisation and business (continued)**

The Group's subsidiaries, associates and joint ventures as of 31 December 2016 and 2015 were as follows:

Parent	Name	Classification	Group's Ownership (%)		Location	Reporting date	Industry
			2016	2015			
The Bank	TDB Capital LLC	Subsidiary	100.00	100.00	Mongolia	31 December	Finance
	NNC(*1)	Subsidiary	75.89	84.36	Mongolia	31 December	Media
	MGLL(*2)	Joint venture	55.00	55.00	Mongolia	31 December	Finance
	MIK Holding JSC(*3)	Associate	31.27	33.18	Mongolia	31 December	Mortgage
	JCDecaux LLC(*4)	Associate	49.00	49.00	Mongolia	31 December	Marketing
	Times Media Corporation LLC(*5)	Subsidiary	100.00	100.00	Mongolia	31 December	Media
	NNC UB Omnimedia LLC(*5)	Subsidiary	51.00	-	Mongolia	31 December	Media
	ZGMMedeelel LLC(*5)	Subsidiary	100.00	-	Mongolia	31 December	Publishing
	Grand Step LLC(*6)	-	-	70.00	Mongolia	31 December	Publishing

(*1) The Group acquired 10% and TDB Capital LLC acquired 74.36% equity interest of TDB Media LLC, respectively. In March 2016, TDB Media LLC merged with NNC LLC. The Group acquired 9% and TDB Capital LLC acquired 66.89% equity interest of NNC LLC, respectively as at 31 December 2016.
(*2) The Group acquired 10% and TDB Capital LLC acquired 45% equity interest.
(*3) In 2016, as a result of non-proportionate capital reduction, the Group's ownership interest in MIK Holding JSC decreased to 22.95% and TDB Capital LLC acquired 8.32% equity interest.
(*4) NNC acquired 49% equity interest in JCDecaux LLC.
(*5) Times Media Corporation LLC, NNC UB Omnimedia LLC and ZGMMedeelel LLC are subsidiaries of NNC LLC.
(*6) The Group disposed all shares of Grand Step LLC during the year ended 31 December 2016.

2 **Basis of preparation**

Statement of compliance

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

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

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

The consolidated financial statements were authorised for issue by the Board of Directors on 31 March 2017.

2 **Basis of preparation (continued)**

Basis of measurement

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

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

Functional and presentation currency

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

Use of estimates and judgments

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

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

2 Basis of preparation (continued)

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 2015. The following changes in accounting policies are reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2016.

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

The amendments clarify that a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments are effective for annual periods beginning on or after 1 January 2016.

The Group applied the amendments retrospectively and the amendments did not impact the consolidated financial statements.

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.

The Group applied the amendments retrospectively and the amendments did not impact the consolidated financial statements.

(iii) Amendments to Bank of Mongolia's Provisioning Guidelines

The amendments require that classification for loan is determined based on both quantitative and qualitative factors. Depending on the assessment of quantitative and qualitative factor, the Group is required to determine the provisioning ratio within a range for each loan classification while under the previous guidelines a fixed provisioning ratio was assigned to each loan classification. The amendments also clarify the provisioning ratio to be applied for off-balance sheet, and provide updated provisioning ratio to be applied for repossessed assets. These amendments are effective for annual periods beginning on or after 20 December 2016.

The Group applied the amendments prospectively for the year ended 31 December 2016 as required by the BOM Provisioning Guidelines.

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.

(iv) Non-controlling interests

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

3 Significant accounting policies (continued)

Business combination

(i) Business combination

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

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

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

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

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

(ii) Goodwill

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

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

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

3 Significant accounting policies (continued)

Investment in associates and joint ventures

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

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

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

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

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

Foreign currency transactions

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

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

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

3 Significant accounting policies (continued)

Financial instruments

(i) Classification

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

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

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

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

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

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

(ii) Initial recognition

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

3 Significant accounting policies (continued)

Financial instruments (continued)

(iii) Subsequent measurement

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

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

Derecognition of financial assets and liabilities

(i) Financial assets

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

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

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

3 **Significant accounting policies (continued)**

Derecognition of financial assets and liabilities (continued)

(ii) Financial liabilities

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

Cash flow hedges

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

Cash and cash equivalents

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

3 **Significant accounting policies (continued)**

Property and equipment

(i) Recognition and subsequent measurement

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

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

(ii) Depreciation

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

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

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

Construction-in-progress

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

3 **Significant accounting policies (continued)**

Intangible assets

(i) Acquired intangible assets

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

(ii) Amortisation

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

● Software	3 years
● Patent	10 years

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

Investment property

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

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

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

Foreclosed real properties

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

3 **Significant accounting policies (continued)**

Impairment

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

(i) Loans and receivables

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

In accordance with the BOM Provisioning Guidelines revised on 9 December 2016, the Group is required to determine the quality of receivables based on their time factor and qualitative characteristics in classifying them and determining provisions. Such a model classifies the Group's allowances for receivable losses at the rates of 0.5%, 1% to 5%, 5% to 25%, 15% to 50% and 50% to 100%, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. Previously 1%, 5%, 25%, 50% and 100% were applied, respectively. The Group does not recognise allowance for the deposit collateralised loans and overnight loans.

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

In accordance with the BOM Provisioning Guidelines revised on 9 December 2016, the bank is required to determine the quality of off-balance assets and contingent liabilities based on obligor's qualitative characteristics in classifying them and determining provisions. BOM Provisioning Guidelines had set the model of provisioning rate depending on the remaining period to maturity. Such a model classifies the Bank's allowances for off-balance assets and contingent liabilities losses at the rates of 0%, 5%, 25%, 50% and 100% in case of remaining period less than 1 year, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively. While in case of remaining period more than 1 year, it classifies the Bank's allowances for off-balance assets and contingent liabilities losses at the rates of 0%, 1%, 15%, 35% and 75%, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively.

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

3 Significant accounting policies (continued)

Impairment (continued)

(ii) Available-for-sale financial assets

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

(iii) Held-to-maturity financial assets

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

(iv) Assets other than financial instruments

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

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

3 Significant accounting policies (continued)

Repurchase agreements

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

Share capital

(i) Ordinary shares

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

(ii) Treasury shares

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

(iii) Non-controlling interests

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

Provisions

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

Segment reporting

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

3 Significant accounting policies (continued)

Revenue

(i) Interest income

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

(ii) Fee and commission income

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

(iii) Rental income

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

(iv) Dividends

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

Operating lease payments

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

Income tax

Income tax expense is comprised of current tax only.

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

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

3 Significant accounting policies (continued)

Income tax (continued)

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

Employee benefits

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

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are effective for annual periods beginning after January 1, 2017, 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.

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

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15, 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.

3 Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

(iii) IFRS 16 Leases

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

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

(iv) 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 Revised Accounting Guidelines.

4 Cash and due from banks

	2016 MNT'000	2015 MNT'000
Cash on hand	73,377,054	62,391,611
Deposits and placements with banks and other financial institutions	658,425,089	287,224,533
Balances with BOM(*)	457,020,267	345,343,557
	1,188,822,410	694,959,701

(*) At 31 December 2016 and 2015, 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 2016 and 2015, the required reserve amount was MNT 297,533,953 thousand and MNT 296,787,518 thousand, respectively.

5 Investment securities

	2016 MNT'000	2015 MNT'000
Available-for-sale investment securities		
Unquoted equity securities, at cost(*1)	443,430	443,430
Repossessed assets, at cost(*2)	92,257,890	-
Equity securities, at fair value(*3)	103,732,318	94,006,770
Government bonds(*4)	55,462,606	9,336,383
Bank of Mongolia Treasury bills(*5)	99,891,902	194,649,861
Residential mortgage-backed securities(*6)	57,919,000	51,814,600
Promissory notes(*7)	-	74,193,728
	409,707,146	424,444,772
Held-to-maturity investment securities		
Government bonds	992,594,073	988,095,150
Development Bank of Mongolia bonds(*8)	123,133,998	-
	1,115,728,071	988,095,150
	1,525,435,217	1,412,539,922

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

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

5 Investment securities (continued)

(*3) The Group disposed 1,266,799 shares of Turquoise Hill Resources Ltd ("TRQ") and all shares of Mongolian Mining Corporation during the year ended 31 December 2016. Unrealised gain of MNT 38,872,036 thousand arising from changes in the fair value of equity securities was recognised directly in equity as other comprehensive income for the year ended 31 December 2016 respectively.
(*4) Unrealised gain (loss) of MNT 2,325,918 thousand and MNT (442,003) thousand arising from changes in the fair value of such investment were recognised directly in equity as other comprehensive income for the years ended 31 December 2016 and 2015.
(*5) Bank of Mongolia treasury bills have short maturities from one week to three weeks. The carrying amount approximates fair value.
(*6) Residential mortgage-backed securities represent senior and junior notes issued by MIK active SPC (one to nine) ("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.
(*7) Promissory notes were fully redeemed during the year ended 31 December 2016.
(*8) The Group acquired Development Bank of Mongolia bonds ("DBM Bond") during the year ended 31 December 2016 whose maturities are from 21 December 2018 to 14 March 2022.

6 Investment in associates and joint ventures

	2016 MNT'000	2015 MNT'000
Investment in MIK Holding JSC(*1)	52,912,775	43,438,826
Investment in MG Leasing LLC(*2)	3,562,516	871,839
Investment in JCDecaux Mongolia LLC(*3)	3,015,498	2,453,201
	59,490,789	46,763,866

(*1) MIK Holding LLC ("MIK") decreased paid in capital in 2016, carrying amount decreased by MNT 3,206,429 thousand. The Group's ownership interest in MIK decreased to approximately 31.27% due to non-proportionate capital decrease. MNT 1,655,516 thousand decreased by receiving dividend in 2016. In applying the equity method, the Group used the financial information of MIK as at 31 December 2016. The Group recognised its share of gain of MIK of MNT 14,335,894 thousand and MNT 9,206,541 thousand in 2016 and 2015, 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 2016. The Group recognised its share of gain (loss) of MGLL of MNT 2,690,677 thousand and MNT (823,728) thousand in 2016 and 2015, 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 2016, the Group entered into a MNT 292,383 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 269,914 thousand and MNT 148,271 thousand in 2016 and 2015, respectively.

6 Investment in associates and joint ventures (continued)

Condensed financial statements of associates as at 31 December 2016 and 2015, and for the years ended 31 December 2016 and 2015 were as follows:

	2016 MNT'000		2015 MNT'000	
Investees	Asset	Liability	Asset	Liability
MIK	2,322,484,358	2,187,354,486	2,167,353,263	2,053,908,760
MGLL	79,795,265	73,317,964	44,533,672	42,948,511
JCD	6,622,820	468,741	5,237,585	231,054

	2016 MNT'000		2015 MNT'000	
Investees	Operating revenue	Net income	Operating revenue	Net income
MIK	192,685,281	50,737,893	125,520,407	30,374,884
MGLL	6,768,049	2,268,114	3,417,093	(1,649,657)
JCD	2,072,096	560,361	1,448,209	296,503

7 Loans and advances

	2016 MNT'000	2015 MNT'000
Loans and advances to customers	2,953,228,405	2,713,765,929
Loans to executives, directors and staff	35,505,538	29,354,297
	2,988,733,943	2,743,120,226
Allowance for loan losses	(153,566,637)	(98,140,610)
	2,835,167,306	2,644,979,616

Movements in the allowance for loan losses for the years ended 31 December 2016 and 2015 were as follows:

	2016 MNT'000	2015 MNT'000
At 1 January	98,140,610	58,742,342
Provision for the year, net	91,794,836	44,573,901
Written off	(36,368,809)	(5,175,633)
At 31 December	153,566,637	98,140,610

7 Loans and advances (continued)

In addition, the Group transferred its mortgage loans to MIK SPCs with carrying amounts of MNT 61,073,170 thousand and MNT 234,396,500 thousand during 2016 and 2015, respectively. These transactions qualified for derecognition.

The Group transferred pool of mortgage loans with carrying amounts of MNT 613,153 thousand to Mongolian Mortgage Corporation HFC LLC during 2016. But the loans do not qualify for derecognition criteria for financial assets since significant risks and rewards were not transferred to Mongolian Mortgage Corporation HFC LLC . Accordingly, the Group did not derecognise in the financial statements but accounted for these transactions as collateralised financing for which the balance at 31 December 2016 amounted to MNT 504,930 thousand. (Note 18)

The Group entered into Troubled Asset Recovery Program ("TARP") agreement with Bank of Mongolia in June 2016. TARP is intended to assist two borrowers in designated economic sectors who do not expect to be able to fully repay the principal and interest of its loans in the medium term. Under this agreement, BOM purchased debt securities issued by the Group and the Group granted certain loans. In addition, the Group should apply specific asset classification and provisioning ratio for the relevant borrowers as determined by BOM, which is higher than BOM Provisioning Guidelines disclosed in the Group's annual consolidated financial statements as at and for the year ended 31 December 2016.

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

8 Bills purchased under resale agreements

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

9 Subordinated loans

	2016 MNT'000	2015 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.

10 Property and equipment

Property and equipment as at 31 December 2016 and 2015 were as follows:

31 December 2016
(In MNT'000)

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

(*1) Construction-in-progress account mainly consists of costs for construction of the Group's new office building and branch buildings. The Group made a contract to build its new corporate head office with Riverstone Property LLC and paid MNT 136,973,200 thousand in June 2016. Riverstone Property LLC is currently in the process of appointing sub-contractors and the actual construction work is planned to be commenced in 2017 and to be completed in 2019.

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

10 Property and equipment (continued)

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	(1,497,734)	(25,038)	(81,058)	-	(1,603,830)
Reclassification(*1)	(61,460,406)	-	-	-	(61,460,406)
Revaluation surplus	(23,968,878)	919,916	-	-	(23,048,962)
At 31 December 2015	179,903,256	14,056,929	20,184,676	6,258,473	220,403,334
Measured at:					
Cost	50,226,151	13,137,013	20,184,676	6,258,473	89,806,313
Revaluation	129,677,105	919,916	-	-	130,597,021
	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	(224,330)	-	(99)	-	(224,429)
Reclassification(*1)	(328,090)	-	-	-	(328,090)
Revaluation surplus	(4,701,853)	-	-	-	(4,701,853)
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.

10 Property and equipment (continued)

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

Date of valuation	Description of property	Basis of valuation
31 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
31 December 2016	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 m²); buildings: 300 ~ 7,500 apartments: 1,573 ~ 2,648	The estimated fair value would increase (decrease) if: Expected market price for proxy land ownership, buildings and apartments was higher (lower).

11 Intangible assets and goodwill

	2016 MNT'000	2015 MNT'000
Cost		
At 1 January	8,949,905	8,269,780
Additions		
Software	4,634,105	680,125
Patent	802,491	-
At 31 December	14,386,501	8,949,905
Amortisation and impairment losses		
At 1 January	7,500,166	3,727,314
Amortisation charge for the year(*1)	1,838,219	969,647
Impairment loss(*2)	-	2,803,205
At 31 December	9,338,385	7,500,166
Carrying amounts		
At 31 December	5,048,116	1,449,739

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

12 Investment property

	2016 MNT'000	2015 MNT'000
At 1 January	99,789,000	33,689,000
Disposals	(588,240)	-
Write-offs	(1,151,774)	-
Reclassification(*)	(1,332,386)	61,132,316
Change in fair value	(7,792,650)	4,967,684
At 31 December	88,923,950	99,789,000

(*) Portion of the Group's office building was reclassified to property and equipment and reclassified from property and equipment during 2016 and 2015, respectively.

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

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

There was no transfer to or from level 3 of investment property during 2016 and 2015.

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: 5,500 ~ 7,500	The estimated fair value would increase (decrease) if: Expected market price for proxy buildings was higher (lower).

13 Foreclosed real properties

	2016 MNT'000	2015 MNT'000
Industrial buildings	10,960,459	10,983,950
Apartments and houses	1,069,616	425,920
Less: Allowances	(9,835,466)	(10,039,060)
	2,194,609	1,370,810

During 2016 and 2015, an allowance of MNT 504,653 thousand and MNT 135,000 thousand were written back upon recovery from foreclosed real properties, respectively, and foreclosed real properties were not written off against impairment losses.

14 Other assets

	2016 MNT'000	2015 MNT'000
Precious metals	31,334	23,678
Accrued interest receivables	141,186,879	99,680,366
Prepayment	23,378,378	19,028,986
Inventory supplies	1,954,431	1,498,486
Spot trading receivables	9,146,782	104,719,018
Derivative assets for trading	70,898,721	34,642,718
Hedging instruments(*1)(*2)(*3)	288,075,402	66,333,362
Domestic exchange settlement receivables	13,974,953	3,781,011
Other receivables, net(*4)	53,896,146	3,840,249
	602,543,026	333,547,874

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

	2016 MNT'000	2015 MNT'000
Beginning balance	79,843,677	-
Deferral	-	91,459,139
Amortisation(*)	(30,099,198)	(11,615,462)
Ending balance	49,744,479	79,843,677

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

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

14 Other assets (continued)

(*3) Changes in other comprehensive income recognised as effective portion of cash flow hedge for the years ended 31 December 2016 and 2015 were as follows:

	2016 MNT'000	2015 MNT'000
Beginning balance	39,938,362	-
Increase	221,742,040	66,333,362
Reclassification(*)	(246,775,000)	(26,395,000)
Ending balance	14,905,402	39,938,362

(*) Valuation gain which were reclassified to profit or loss for the years ended 31 December 2016 and 2015. 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 2016, will be up until 29 April 2020.

(*4) Other receivables are presented net of impairment losses amounting to MNT 443,131 thousand and MNT 36,741 thousand as at 31 December 2016 and 31 December 2015, respectively.

15 Deposits from customers

	2016 MNT'000	2015 MNT'000
Current accounts	857,112,725	705,643,603
Savings deposits	272,206,435	293,612,096
Time deposits	1,181,790,112	1,173,232,888
Other deposits	104,419,834	37,464,876
	2,415,529,106	2,209,953,463

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 1.97% and 3.35% (2015: 1.51% and 3.18%) 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 6.42% (2015: 1.95% and 6.59%), respectively.

Foreign and local currency time deposits bear interest at a rate of approximately 6.69% and 14.71% (2015: 6.50% and 13.78%), respectively.

16 Deposits and placements by banks and other financial institutions

	2016 MNT'000	2015 MNT'000
Current accounts deposits:		
Foreign currency deposits	46,329,176	11,812,893
Local currency deposits	985,892	815,763
Foreign currency cheques for selling	8,307	3,689
Deposits from banks	95,884,296	100,122,627
	143,207,671	112,754,972

17 Bills sold under repurchase agreements

Contract party	Sold date	Maturity	Interest rate	2016 MNT'000	2015 MNT'000
Bank of Mongolia	16 Oct 2015	14 Apr 2016	5.0%	-	99,799,000
Development Bank of Mongolia	8 Feb 2016	21 Sep 2018	7.5%	64,960,388	-
Development Bank of Mongolia	8 Feb 2016	6 Oct 2021	7.5%	15,000,000	-
Development Bank of Mongolia	25 Feb 2016	23 Nov 2021	7.5%	20,000,000	-
Development Bank of Mongolia	3 Mar 2016	29 Nov 2021	7.5%	20,000,000	-
Development Bank of Mongolia	23 Mar 2016	14 Dec 2021	7.5%	10,000,000	-
				129,960,388	99,799,000

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

18 Borrowings

	2016 MNT'000	2015 MNT'000
Kreditanstalt fuer Wiederaufbau	6,007,564	6,212,256
World Bank	1,158,663	1,541,910
Asian Development Bank	4,200,842	1,217,820
International Development Association	1,189,341	977,505
Export-Import Bank of Korea	1,665,936	14,155,757
Export-Import Bank of Republic of China	4,537,157	4,739,314
Japan International Cooperation Agency	26,997,352	24,122,817
Atlantic Forfaitierungs AG	13,697,560	7,789,578
SME Fund, Ministry of Industry	9,605,783	39,798,757
Commerzbank AG	103,966,539	62,009,771
ING Bank	1,866,397	6,640,160
Baoshang Bank	35,796,000	-
Sumitomo Mitsui Banking Corporation	61,483,128	45,077,031
Netherlands Development Finance Company	12,447,650	16,633,167
Bank of Mongolia	1,081,325	45,946,900
Development bank of Mongolia	293,811,162	168,211,079
Mortgage Financing Programme by BOM	217,607,766	132,030,609
MG Leasing Corporation	12,352,880	9,831,718
Russian Agricultural Bank	-	23,951,760
TDB Syndicated Facility	57,482,926	78,693,375
Cargill TSF Asia Pte.Ltd	60,164,529	49,546,647
Cargill Financial Services International, Inc	252,189,389	170,232,486
Bank of Tokyo-Mitsubishi UFJ	46,006,219	5,821,172
China Trade Solutions	-	648,208
Exim Bank of Russia	944,196	6,960,142
Erste Group Bank	5,866,636	9,980,723
Banca Popolare Di Sondrio	55,189,158	13,447,660
Banco Popular Espanol	28,106,741	757,543
UBI Banca	212,398	141,693
OPEC Fund for International Development	61,637,113	49,174,766
Japan Bank of International Cooperation	4,249,666	5,541,940
Industrial and Commercial Bank of China	1,727,515	10,058,476
Agricultural Bank of China	835,336	461,312
Mongolian Mortgage Corporation HFC LLC	504,930	-
Natixis Bank	1,003,229	-
Chailease International Financial Services	5,713,521	-
Other	870,344	40,037
	1,392,176,891	1,012,394,089

18 Borrowings (continued)

Kreditanstalt fuer Wiederaufbau ("KfW")

(a) In 1997, the Group entered into Financing Agreement with KfW through Bank of Mongolia, under which the Group can borrow equivalent up to EUR 4,345,981 from KfW via BOM, in EUR and MNT as a Programme-Executing Agency for mainly providing financing to various small and medium enterprises customers at preferential interest rates. The outstanding KfW loan amounted to EUR 1,522,389 (MNT 3,967,025 thousand) and EUR 2,456,461 (MNT 5,361,717 thousand) at 31 December 2016 and 2015, respectively. The loan bears interest at a fixed rate of 1.25% per annum. Principal repayment is on a semi-annual basis, and the repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers

(b) Under the Financing Agreement as described in (a) above, the outstanding MNT loan amounted to MNT 2,040,539 thousand and MNT 850,539 thousand at 31 December 2016 and 2015, respectively. The MNT loan bears interest at a rate equal to the BOM's Policy rate. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

World Bank

(a) In 2006, the Group entered into the TDB Subsidiary Loan Agreement with World Bank, under which the Group can borrow up to USD 4,000,000 from the World Bank via the Ministry of Finance to finance the Second Private Sector Development Project through the provision of sub-loans. The outstanding World Bank USD loan amounted to USD 180,000 (MNT 448,115 thousand) and USD 320,000 (MNT 638,713 thousand) at 31 December 2016 and 2015, 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 300,000 thousand and MNT 534,000 thousand at 31 December 2016 and 2015, 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 164,909 (MNT 410,548 thousand) and USD 184,970 (MNT 369,197 thousand) at 31 December 2016 and 2015, respectively. The loan bears interest at a fixed rate of 2% per annum. The loan is repayable semi-annually until final repayment due in May 2025.

18 Borrowings (continued)

Asian Development Bank ("ADB")

(a) In 1999, the Group obtained a USD loan in the amount of USD 134,164 from ADB via BOM to upgrade the Group's accounting information systems. The outstanding loan amounted to USD 67,082 (MNT 167,002 thousand) and USD 71,554 (MNT 142,820 thousand) at 31 December 2016 and 2015, 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 675,000 thousand and MNT 1,075,000 thousand at 31 December 2016 and 2015, respectively. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

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

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 477,737 (MNT 1,189,341 thousand) and USD 489,737 (MNT 977,505 thousand) at 31 December 2016 and 2015, respectively. The loan bears interest at a fixed rate of 1% per annum. Principal repayments commenced in August 2007 with the final repayment due in February 2037.

Export-Import Bank of Korea ("KEXIM")

In 2004, the Group entered into the Comprehensive Interbank Export Credit Agreement with KEXIM under which the Group can borrow up to USD 2,000,000 for relending purposes to finance customers who purchase goods from Korean exporters. Effective from July 2012, the maximum amount of facility increased to USD 30,000,000 but it decreased to USD 20,000,000 in July 2016. The outstanding borrowings under this line of credit agreement amounted to USD 669,177 (MNT 1,665,936 thousand) and USD 7,092,134 (MNT 14,155,757 thousand) at 31 December 2016 and 2015, 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 1,822,495 (MNT 4,537,157 thousand) and USD 2,374,430 (MNT 4,739,314 thousand) at 31 December 2016 and 2015, 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

18 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 83,500 (MNT 207,876 thousand) and USD 155,500 (MNT 310,375 thousand) at 31 December 2016 and 2015, respectively. The loan bears interest at six-month LIBOR USD rate plus a margin of 1% per annum. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) Under the Loan Financing Agreement as described in (a) above, the outstanding MNT loan amounted to MNT 1,951,120 thousand and MNT 2,343,580 thousand at 31 December 2016 and 2015, 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 1,076,500 (MNT 2,679,979 thousand) and MNT 22,158,377 thousand at 31 December 2016, and USD 1,238,500 (MNT 2,472,021 thousand) and MNT 18,996,841 thousand at 31 December 2015. 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 5,502,067 (MNT 13,697,560 thousand) and USD 3,902,633 (MNT 7,789,578 thousand) at 31 December 2016 and 2015, 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.

18 Borrowings (continued)

SME Fund, Ministry of Food, Agriculture and Light Industry

(a) In 2009, the Group entered into a credit facility loan agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of SME development. The Ministry of Food, Agriculture and Light Industry budgeted MNT 30,000,000 thousand for this facility which is available to all Mongolian commercial banks with no specific set amount allocated to individual banks. In 2010 and 2011, the Group renewed this facility agreement, and the aggregate budget increased to MNT 60,000,000 thousand and MNT 150,000,000 thousand, respectively. The loan bears interest at a fixed rate of 1.2% per annum with varying repayment dates depending on the draw date. In February 2016, the Group renewed this facility agreement with the Ministry of Food, Agriculture and Light Industry for the purpose of supporting SME development and increasing working place. The outstanding borrowings amounted to MNT 1,619,017 thousand and MNT 6,994,652 thousand at 31 December 2016 and 2015, respectively. The loan bears interest at a fixed rate of 7.0% per annum. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

In 2013, the Group signed a new facility agreement with the Ministry of Food, Agriculture and Light Industry within the above mentioned credit program. This credit facility 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 1,548,930 thousand and MNT 2,908,808 thousand at 31 December 2016 and 2015, 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 150,000,000 thousand for this facility. The loan bears interest at a fixed rate of 0.6% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to MNT 3,186,100 thousand and MNT 25,670,596 thousand at 31 December 2016 and 2015, 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 Food, Agriculture and Light Industry for the purpose of SME development within the encouraging export and substituting import program (888 Project). Projects with amount is less than MNT 2,000,000 thousand were implemented by SME Fund, Ministry of Industry and financed by Development bank of Mongolia. The outstanding borrowings amounted to MNT 3,251,736 thousand and MNT 4,224,700 thousand at 31 December 2016 and 2015, 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 34,209,760 (MNT 85,166,223 thousand) and EUR 7,214,824 (MNT 18,800,316 thousand) at 31 December 2016, and USD 27,640,512 (MNT 55,169,909 thousand) and EUR 3,133,670 (MNT 6,839,862 thousand) at 31 December 2015. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

18 Borrowings (continued)

ING Bank

In 2011, the Group obtained a trade finance line with ING Bank under which the Group can borrow up to EUR 15,000,000 for relending purposes or confirmations of letter of credit(LC). The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. Under this trade finance facility, the Group has outstanding loans of EUR 716,250 (MNT 1,866,397 thousand) at 31 December 2016 and USD 1,538,576 (MNT 3,070,966 thousand) and EUR 1,635,220 (MNT 3,569,194 thousand) at 31 December 2015. 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.

In August 2016, the Group entered into a Master Agreement on General Conditions of CNY Interbank loan under which the Group can borrow CNY funding from Baoshang bank from time to time.

The outstanding of Baoshang Bank loan amounted to CNY 100,000,000 (MNT 35,796,000 thousand) at 31 December 2016.

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 loan amounted to USD 18,654,494 (MNT 46,440,923 thousand), EUR 174,982 (MNT 455,966 thousand) and JPY 688,354,815 (MNT 14,586,239 thousand) at 31 December 2016 and 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. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Netherlands Development Finance Company ("FMO")

In June 2012, the Group entered into a Senior Term Facility Agreement with FMO under which the Group can borrow up to USD 10,000,000 which shall be used for relending purposes for small and medium entities. The outstanding loan amounted to USD 5,000,000 (MNT 12,447,650 thousand) and USD 8,333,333 (MNT 16,633,167 thousand) at 31 December 2016 and 2015, respectively. 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.

18 Borrowings (continued)

Bank of Mongolia

Since 2012, the Group has continued to act as a participant bank within the relending agreement with the Bank of Mongolia Midterm Sub-programme named "To stabilise price of basic commodities and products" consists of four sub programs: i) price stability of staple food; ii) fuel retail price stability; iii) reducing the cost of imported consumption goods; and iv) promoting the construction sector and achieving stability of housing prices. In 2014, the Group signed a new credit facility agreement with the Bank of Mongolia for the purpose of Cashmere Industry support. This credit facility agreement bears interest at a fixed rate of 6.0% to 9.5% per annum with varying repayment dates depending on the 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. From all these programme, the outstanding loan amounted to MNT 1,081,325 thousand and MNT 45,946,900 thousand at 31 December 2016 and 2015, 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 2,874,994 thousand and MNT 3,650,250 thousand at 31 December 2016 and 2015, respectively. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

(b) In July 2014, the Group entered into a loan agreement with the Development Bank of Mongolia for the purpose of larger project support within the encouraging export and substituting import program (888 Project). Projects with amount of more than MNT 2,000,000 thousand were implemented and financed by Development Bank of Mongolia. The outstanding borrowings amounted to MNT 56,573,000 thousand and MNT 60,523,800 thousand at 31 December 2016 and 2015, 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 13,331,652 thousand and 9,500,066 thousand at 31 December 2016 and 2015, respectively.

(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 100,000,000 thousand for this facility. This credit facility bears interest at a fixed rate of 6.0% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to MNT 12,600,000 thousand and MNT 6,000,000 thousand at 31 December 2016 and 2015, respectively.

(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 industrialisation supporting. Development Bank of Mongolia budgeted MNT 300,000,000 thousand for this facility. This credit facility bears interest at a fixed rate of 6.0% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facility amounted to MNT 11,745,000 thousand, MNT 2,000,000 thousand at 31 December 2016 and 2015, respectively.

18 Borrowings (continued)

Development Bank of Mongolia (continued)

(f) In September and December 2015, the Group signed new credit facility agreements with the Development Bank of Mongolia for the purpose of financing ASEM(Asia-Europe Meeting) Villa project and hotel, building for ASEM. Development Bank of Mongolia budgeted MNT 275,000,000 thousand for above facilities. The loan bears interest at a fixed rate of 4.5% per annum with varying repayment dates depending on the draw date. The outstanding borrowings under this credit facilities amounted to MNT 182,836,816 thousand and 86,536,963 thousand at 31 December 2016 and 2015, respectively.

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

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

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 217,607,766 thousand and MNT 132,030,609 thousand at 31 December 2016 and 2015, 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 utilise the facility to on-lend the proceeds to Mongolian knitting companies which are purchasing machines from Shima Seiki MFG Ltd. and the loan was fully repaid in September 2015. In December 2015, the Group entered into a Term Loan Agreement for the facility of USD 5,000,000. The outstanding loan amounted to USD 4,961,932 (MNT 12,352,880 thousand) and USD 4,925,760 (MNT 9,831,718 thousand) at 31 December 2016 and 2015, 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) at 31 December 2015. The loan has been fully repaid and there were no outstanding loan at 31 December 2016.

18 Borrowings (continued)

TDB Syndicated Facility

In September 2013, the Group entered into A/B Syndicated Term Facility Agreement with Netherlands Development Finance Company ("FMO"). The syndicated term facility of USD 82,000,000 comprised of development tranche ('A' loan) of USD 35,000,000 arranged by FMO and joined by International Investment Bank and of commercial tranche ('B' loan) of USD 47,000,000 arranged by ING Bank N.V. and TDB Capital LLC. The 'B' loan participations were received from AKA Ausfuhrkredit, Bank of Tokyo-Mitsubishi UFJ, Ltd., VTB Moscow, Commerzbank, Atlantic Forfaitierungs, MG Leasing Corporation and Chailease Group. The proceeds of the Facility will be used to finance general funding requirements of the Group 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 23,089,871 (MNT 57,482,926 thousand) and USD 39,425,933 (MNT 78,693,375 thousand) at 31 December 2016 and 2015, respectively

Cargill TSF Asia Pte. Ltd

Since May 2014, the Group entered into a trade related loan agreement under which the Group financed import of goods amounted to USD 24,167,023 (MNT 60,164,529 thousand) and to USD 24,823,218 (MNT 49,546,647 thousand) at 31 December 2016 and 2015, 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 101,300,000 (MNT 252,189,389 thousand) and USD 85,287,671 (MNT 170,232,486 thousand) at 31 December 2016 and 2015, 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 17,316,743 (MNT 43,110,552 thousand) and JPY 136,652,500 (MNT 2,895,667 thousand) as at 31 December 2016 and USD 2,916,448 (MNT 5,821,172 thousand) at 31 December 2015, respectively. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

China Trade Solutions

The Group entered into a Short-Term Trade Finance Facilities Agreement with China Trade Solutions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The outstanding loan amounted to USD 324,757 (MNT 648,208 thousand) at 31 December 2015 and it was fully repaid as of the end of 2016.

Exim Bank of Russia ("Rosexim Bank")

In September 2015, the Group entered into Interbank Loan Agreement with Rosexim Bank for the purpose of relending to the customer. The outstanding loan amounted to USD 379,267 (MNT 944,196 thousand) and USD 3,487,080 (MNT 6,960,142 thousand) at 31 December 2016 and 2015, respectively.

18 Borrowings (continued)

Erste Group Bank

The Group entered into "Master Forfaiting Agreement" for total amount of EUR 5 million with Erste Group Bank in February 2015 which enabled us to provide import financing to our customers engaged with 13 countries of East Europe. Under this facility agreement, the Group has outstanding loans of EUR 1,900,119 (MNT 4,951,311 thousand) and USD 367,670 (MNT 915,325 thousand) at 31 December 2016 and EUR 4,572,650 (MNT 9,980,723 thousand) at 31 December 2015, respectively. The interest of this particular loan varies with each drawdown which is determined by Erste Group Bank. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Banca Popolare Di Sondrio

Since October 2015, Banca Popolare Di Sondrio, Italy has been offering post import financing on Italy and non-Italy deals. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The Group has outstanding loans of USD 20,697,683 (MNT 51,527,502 thousand) and EUR 1,405,200 (MNT 3,661,656 thousand) at 31 December 2016 and USD 6,573,272 (MNT 13,120,119 thousand) and EUR 150,062 (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 1,512,622 (MNT 3,941,575 thousand) and of USD 9,706,718 (MNT 24,165,166 thousand) at 31 December 2016 and 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 43,993 (MNT 109,522 thousand) and EUR 39,480 (MNT 102,876 thousand) at 31 December 2016 and 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 24,758,534 (MNT 61,637,113 thousand) and USD 24,636,903 (MNT 49,174,766 thousand) at 31 December 2016 and 2015, respectively. The interest of the facility is repayable semi-annually until final repayment due in October 2018 and the principal is repayable at the maturity of the facility.

18 Borrowings (continued)

Japan Bank of International Cooperation ("JBIC")

In 2013, the Group entered into On-lending agreement with Ministry of Finance based on the Export Credit Line Agreement made between Japan Bank of International Cooperation and Mongolian Government in 2013, for the purpose of financing the equipment, machineries, goods and services produced by Japanese exporters. The Group can obtain JPY and USD loans up to the total financing amount of JPY 8,000,000 thousand. The outstanding loan amounted to JPY 200,550,552 (MNT 4,249,666 thousand) and JPY 334,254,552 (5,541,940 thousand) at 31 December 2016 and 2015, respectively. The loan matures in May 2018 and bears base interest at a rate of 3.35%.

Industrial and Commercial Bank of China ("ICBC")

In 2010, the Group entered into a Relending facility agreement with ICBC for relending purposes to finance its customers. The outstanding loan under the agreement amounted to CNY 4,826,000 (MNT 1,727,515 thousand) at 31 December 2016 and USD 245,454 (MNT 489,921 thousand) and CNY 31,113,205 (MNT 9,568,555 thousand) at 31 December 2015. The amount and currency of each drawdown, applicable interest rate, disbursement date and repayment date shall be agreed with ICBC on a case by case basis. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

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 2,333,600 (MNT 835,336 thousand) and CNY 1,500,000 (MNT 461,310 thousand) at 31 December 2016 and 2015, respectively. The repayment dates for this loan vary in accordance with the tenor of loans granted to the various borrowers.

Mongolian Mortgage Corporation HFC LLC

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

Natixis Bank

Since November 2016, the Natixis bank, Singapore has been offering post import financing for import transactions. The amount and currency of each drawdown, the applicable interest rate, disbursement date, repayment date and certain other terms and conditions of each drawdown shall be agreed upon by the Group and the customer on a case by case basis. The outstanding loan amounted to EUR 385,000 (MNT 1,003,229 thousand) at 31 December 2016. The repayment dates for this loan vary in accordance to the tenor of loans granted to the various borrowers.

Chailease International Financial Services

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

19 Debt securities issued

	2016 MNT'000	2015 MNT'000
Debt securities issued, at amortised cost	1,569,366,930	1,175,921,345

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.

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

During 2016 and 2015, the respective debt securities accreted by MNT 11,947,629 thousand and MNT 7,840,740 thousand, respectively, using the effective interest method.

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

20 Subordinated debt securities issued

	2016 MNT'000	2015 MNT'000
Subordinated debt, at amortised cost	24,895,300	29,939,700

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 2016 and 2015, the respective debt securities accreted by nil and MNT 76,671 thousand, respectively, using the effective interest method.

21 Other liabilities

	2016 MNT'000	2015 MNT'000
Accrued interest payables	94,075,114	73,107,803
Delay on clearing settlement	23,241,786	5,990,901
Spot trading payables	9,173,670	104,718,936
Derivative liabilities for trading	47,289,538	27,904,044
Finance lease payable	5,723,739	2,642,334
Domestic exchange obligation payables	8,347,828	3,540,888
Others	21,521,912	13,098,306
	209,373,587	231,003,212

22 Share capital

	Number of ordinary shares 2016	Number of ordinary shares 2015	2016 MNT'000	2015 MNT'000
At 1 January	3,305,056	3,305,056	50,000,011	16,525,280
Issued during the year	-	-	-	33,474,731
At 31 December	3,305,056	3,305,056	50,000,011	50,000,011

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

23 Treasury shares

	2016 MNT'000	2015 MNT'000
At 1 January	-	2,620,626
Sale of treasury shares	-	(2,620,626)
At 31 December	-	-

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.

24 Capital adjustments

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

25 Accumulated other comprehensive income

2016 MNT'000

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

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 and write-offs	19,451,448	-	(26,290,109)	(6,838,661)
Ending balance	(23,831,129)	39,938,362	135,298,874	151,406,107

26 Interest income

	2016 MNT'000	2015 MNT'000
Loans and advances	371,947,581	340,982,730
Investment securities	196,953,296	166,998,538
Deposits and placements with banks and other financial institutions	18,496,759	20,769,389
Bills purchased under resale agreements	5,494,386	3,781,652
Subordinated loans	325,333	324,444
	593,217,355	532,856,753

27 Interest expense

	2016 MNT'000	2015 MNT'000
Deposits	160,758,871	156,722,952
Borrowings	79,979,835	66,412,474
Bills sold under repurchase agreements	13,955,270	3,181,170
Debt securities issued	143,606,860	126,082,205
Subordinated debt securities issued	2,531,855	6,121,875
	400,832,691	358,520,676

28 Net fee and commission income

	2016 MNT'000	2015 MNT'000
Fee and commission income		
Wire transfer	5,717,728	5,259,369
Card service	13,565,508	11,618,027
Loan related service	14,620,895	15,088,605
Others	4,752,873	3,199,376
Total fee and commission income	38,657,004	35,165,377
Fee and commission expenses		
Card service expense	5,072,975	4,313,008
Others	2,965,429	1,432,875
Total fee and commission expenses	8,038,404	5,745,883
Net fee and commission income	30,618,600	29,419,494

29 Other operating income (loss), net

	2016 MNT'000	2015 MNT'000
Foreign exchange loss, net	(15,653,147)	(24,936,845)
Precious metal trading gain, net	1,598,180	272,783
Gain on disposition of securities, net	21,827,163	411,065
Gain on disposition of investment in associates and joint ventures	8,907,904	-
Valuation gain (loss) on investment property	(7,792,650)	4,654,281
Loss on disposition of property and equipment, net	(9,348)	(1,777,788)
Loss on disposition of investment property	(1,252,400)	-
Others	4,395,303	6,184,046
	12,021,005	(15,192,458)

30 Operating expenses

	2016 MNT'000	2015 MNT'000
Personnel expense	32,355,970	30,008,387
Depreciation on property and equipment (note 10)	10,472,544	10,409,780
Amortisation of intangible assets (note 11)	1,838,219	969,647
Advertising and public relations	7,955,187	8,065,456
Rental expenses	4,882,541	4,555,035
Professional fees	10,051,702	3,036,016
Technical assistance and foreign bank remittance fees	1,148,260	1,619,185
Write-off of property and equipment	9,380	10,376,532
Write-off of investment property	1,151,774	-
Insurance	6,339,408	5,601,473
Business travel expenses	1,393,627	1,649,807
Cash handling	491,057	438,994
Stationary and supplies	1,046,893	831,859
Communication	1,201,448	3,295,209
Training expenses	275,808	133,034
Utilities	884,237	772,310
Repairs and maintenance	427,957	866,483
Security	249,835	213,858
Meals and entertainment	965,919	579,921
Transportation	306,142	354,224
IT maintenance	1,770,654	1,397,618
Goodwill impairment(*1)	-	2,803,205
Others(*2)	7,431,475	3,439,639
	92,650,037	91,417,672

(*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

	2016 MNT'000	2015 MNT'000
Provision for impairment losses for loans	(91,794,836)	(44,573,901)
Provision for impairment losses for other assets and foreclosed real properties	(202,796)	(2,402,138)
	(91,997,632)	(46,976,039)

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 2016 and 2015 were as follows:

	2016 MNT'000	2015 MNT'000
Within a year	3,260,901	3,013,141
1 – 5 years	4,589,308	2,638,080
	7,850,209	5,651,221

33 Income tax expense

Recognised in the consolidated statements of comprehensive income:

	2016 MNT'000	2015 MNT'000
Income tax expense – current year	212,876	1,263,569

Reconciliation of effective tax expense:

	2016 MNT'000	2015 MNT'000
Profit before tax	67,673,085	62,738,857
Tax at statutory income tax rate (*1)	16,468,271	15,234,714
Tax effect of non-deductible expense	8,478,009	13,892,534
Tax effect of non-taxable income	(24,929,456)	(27,797,848)
Tax effect of income taxable on special tax rate (*2)	136,247	663,378
Effect of tax rates in subsidiaries	(36,678)	(738,851)
Other	96,483	9,642
	212,876	1,263,569

(*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 2016 and 2015.

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 2016 and 2015 were as follows:

	2016 MNT'000	2015 MNT'000
Cash and due from banks (note 5)	1,188,822,410	694,959,701
Balances with BOM restricted in use	(297,533,953)	(296,787,518)
Cash and cash equivalents	891,288,457	398,172,183

Details of significant non-cash activities for the years ended 31 December 2016 and 2015 were as follows:

	2016 MNT'000	2015 MNT'000
Investment properties transferred to property and equipment	1,332,386	-
Investment properties transferred from property and equipment	-	61,132,316
Valuation gain on available-for-sale financial assets	54,050,383	3,656,568
Revaluation of property and equipment	(7,317,887)	7,943,000
Valuation gain (loss) on cash flow hedges	(25,032,960)	39,938,362

36 Segment reporting

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

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

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

Operating segments

The Group comprises the following main operating segments:

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

36 Segment reporting (continued)

(In MNT'000)

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

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	Others	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
Reversal of (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
Segment 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

37 Significant transactions and balances with related parties

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

• *UB City Bank and its subsidiary*	The Group's chairman is a member of the board of directors of UB City Bank.
• *MIK Holding JSC and its subsidiaries("MIK")*	The Group holds approximately 31.27% equity interest in MIK as at 31 December 2016. (note 6)
• *Mongolian General Leasing LLC and its subsidiary ("MGLL")*	The Group holds 55% equity interest in Mongolian General Leasing LLC as at 31 December 2016. (note 6)
• *JCDecaux LLC*	The Group holds 49% equity interest in JCDecaux LLC as at 31 December 2016. (note 6)
• *Valiant Art LLC*	Certain key management of the Group and his immediate relative own Valiant Art LLC as at 31 December 2016.

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

Significant transactions and balances with related parties as at and for the years ended 31 December 2016 and 2015 were as follows:

	2016 MNT'000	2015 MNT'000
UB City Bank and its subsidiary:		
For the year ended 31 December		
Interest income	8,245,657	7,629,444
Interest expense	(1,275,662)	(4,484,327)
Net fee and commission income	(16)	(12)
As at 31 December		
Deposits and placements with banks and other financial institutions	124,349,000	99,799,000
Deposits and placements by banks and other financial institutions	12,696,603	9,680,503
Loans and advances	12,696,580	11,676,483
Subordinated loans (note 9)	4,000,000	4,000,000
Accrued interest income	102,182	13,671
Accrued interest expense	18,784	4,244
Current account	1,572,658	974,072

37 Significant transactions and balances with related parties (continued)

	2016 MNT'000	2015 MNT'000
MIK:		
For the year ended 31 December		
Interest income	6,301,629	4,776,022
Interest expense	(4,566,995)	(1,286,789)
As at 31 December		
Investment securities (note 5)	57,919,000	51,814,600
Deposits and placements by banks and other financial institutions	31,610,000	31,720,000
Accrued interest income	794,143	632,980
Accrued interest expense	760,716	148,682
MGLL:		
For the year ended 31 December		
Net fee and commission income	310,000	360,000
Interest income	147,705	203,846
Interest expense	(92,461)	(140,919)
Operating expense	(153)	-
As at 31 December		
Other assets	-	90,000
Deposit placements by banks and other financial institutions	5,505,292	3,966,494
Loans and advances	237,754	16,463,281
Accrued interest income	1,234	83,054
Receivables	1,634,160	-
Other liabilities	654	1,424
Accrued interest expense	-	253
Lease payables	5,742,678	2,577,072
JCDecaux LLC:		
For the year ended 31 December		
Operating expenses	(10,071)	(69,150)
Valiant Art LLC:		
For the year ended 31 December		
Interest income	255,283	326,074
As at 31 December		
Loans and advances	1,968,240	1,963,267
Accrued interest income	-	4,738

37 Significant transactions and balances with related parties (continued)

	2016 MNT'000	2015 MNT'000
Executive officers:		
For the year ended 31 December		
Interest income	644,200	655,728
As at 31 December		
Loans and advances	7,526,693	7,961,039
Accrued interest income	38,256	31,559

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 2016 and 2015 amounted to MNT 6,612,414 thousand and MNT 5,339,872 thousand, respectively.

38 Categories of financial instruments

The carrying amounts of the categories of financial assets and financial liabilities as at 31 December 2016 and 2015 were summarised as follows:

(In MNT'000)

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

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

38 Categories of financial instruments (continued)

(In MNT'000)

As at 31 December 2015	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)

Net gains (losses) by financial instruments categories for the years ended 31 December 2016 and 2015 were as follows:

(In MNT'000)

For the year ended 31 December 2016

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

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

39 Financial risk management

(a) Introduction and overview

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

- Credit risks
- Liquidity risks
- Market risks

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

Risk management framework

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

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

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

39 Financial risk management (continued)

(b) Credit risk

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

Management of credit risk

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

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

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

(In MNT'000)	**Loans and advances**		**Investment securities**	
	2016	**2015**	**2016**	**2015**
Carrying amount	2,835,167,306	2,644,979,616	1,329,001,579	1,412,539,922
Performing	2,495,898,306	2,343,211,617	1,329,001,579	1,412,539,922
In arrears(*)	269,964,291	225,843,900	-	-
Non-performing loans:				
a) Substandard	101,288,684	83,290,704	-	-
b) Doubtful	105,022,665	76,841,944	-	-
c) Loss	16,559,997	13,932,061	-	-
Gross amount	2,988,733,943	2,743,120,226	-	-
Allowance	(153,566,637)	(98,140,610)	-	-
Net carrying amount	2,835,167,306	2,644,979,616	1,329,001,579	1,412,539,922
Letters of credit and guarantees	639,918,016	393,897,555	-	-
Loan and credit card commitments	172,678,391	160,542,611	-	-
Unfunded Syndicated risk participation	111,791,240	134,518,272	-	-
	924,387,647	688,958,438	-	-

(*) 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.

	2016 MNT'000			**2015 MNT'000**		
	Gross	Net	Fair value of collateral(*)	Gross	Net	Fair value of collateral(*)
In arrears	269,964,291	223,146,289	197,553,676	225,843,900	214,551,704	192,555,800
Substandard	101,288,684	75,966,513	75,803,959	83,290,704	62,468,028	61,564,992
Doubtful	105,022,665	52,511,332	49,853,563	76,841,944	38,420,972	37,967,140
Loss	16,559,997	-	-	13,932,061	-	-
	492,835,637	351,624,134	323,211,198	399,908,609	315,440,704	292,087,932

(*) 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 2016 or 2015.

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:

	2016 MNT'000	2015 MNT'000
Agriculture	15,714,040	14,999,422
Mining and quarrying	240,828,986	357,352,881
Manufacturing	274,246,131	254,559,053
Petrol import and trade	91,124,769	114,907,340
Trading	494,210,051	432,642,345
Construction	456,448,086	531,639,949
Electricity and thermal energy	67,796,130	6,214,824
Hotel, restaurant and tourism	221,693,441	179,258,186
Financial services(*)	341,952,173	166,778,566
Transportation	42,641,764	62,462,802
Health	19,419,045	21,004,416
Education	22,357,776	3,152,349
Mortgage	343,081,723	249,235,635
Payment card	82,231,423	96,837,809
Saving collateralised	22,195,922	20,802,803
Others	99,225,846	133,131,236
Total	2,835,167,306	2,644,979,616

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

39 Financial risk management (continued)

(b) Credit risk (continued)

As stipulated in the Banking Law of Mongolia, the total value of loans, loan equivalent assets and guarantees provided to one person or group of related persons shall not exceed 20% of the total equity of the Group. The maximum value of loans, loan equivalent assets and guarantees provided to a shareholder, the chairman, a member of the Representative Governing Board, an executive director or a Group officer or any related person thereof shall not exceed 5% of the capital of the Group, and the total amount shall not exceed 20% of the capital of the Group respectively. The criteria for concentration of loan as at 31 December 2016 are as follows:

Description	Suitable ratios	31 December 2016	Violation
The loan and guarantee given to one borrower	<Eq 20%	17.77%	None
The loan and guarantee given to the single related party	<Eq 5%	3.83%	None
Total loans and guarantees given to the related parties	<Eq 20%	6.88%	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:

	2016	2015
As at 31 December	47%	44%

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

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

39 Financial risk management (continued)

(c) Liquidity risk (continued)

(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(*2)	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
Unfunded Syndicated risk participation	134,518,272	-	-	-	-	134,518,272
	2,707,061,978	484,306,287	549,020,832	1,655,757,176	164,035,575	5,560,181,848
Net financial assets/(liabilities)	(1,091,763,467)	(81,433,096)	193,838,724	(393,436,818)	981,887,772	(390,906,885)

(*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.

On 19 February 2017, the International Monetary Fund (IMF) announced an initial agreement with the Government of Mongolia for a three-year bailout programme including external financing of USD 5.5 billion. The bailout programme is conditional on various measures which the Government should put in place to improve the economy and the financial sector in the long term. These measures are expected to include tax rate increases as well as steps to reduce non-performing loans. At the date of approval of these financial statements, final signing of the agreement by the Government and the IMF is pending, and the full implications of the programme and measures for the Mongolian financial sector and for the Group specifically are as yet unclear. This creates significant uncertainty in market, regulatory, credit and other risks and the Group's future exposure to such risks, the implications of which will only be realised with time. The financial impact resulting from this bailout programme on the Group's financial statements cannot be reasonably estimated at this time, therefore no adjustments for this matter were recorded to the Group's financial statements.

Management of market risks

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

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

Overall authority for market risk is vested with the ALCO.

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 2016

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

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

39 Financial risk management (continued)

(d) Market risks (continued)

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)

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		
2016		
At 31 December	(14,547,233)	14,547,233
2015		
At 31 December	(8,006,027)	8,006,027

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)

	2016			2015		
	MNT denominated	Foreign currencies	Total	MNT denominated	Foreign currencies	Total
Financial assets						
Cash on hand	30,437,277	42,939,777	73,377,054	30,086,238	32,305,373	62,391,611
Deposits and placements with banks and other financial instruments	124,355,972	534,069,117	658,425,089	99,799,722	187,424,812	287,224,534
Balances and deposits with the BOM	133,806,175	323,214,092	457,020,267	138,049,193	207,294,364	345,343,557
Investment securities	1,421,604,807	103,830,410	1,525,435,217	1,325,346,534	87,193,388	1,412,539,922
Loan and advances	1,672,127,290	1,163,040,016	2,835,167,306	1,323,279,054	1,321,700,562	2,644,979,616
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)	441,921,676	135,257,207	577,178,883	64,926,104	248,995,703	313,921,807
	3,828,253,197	2,302,350,619	6,130,603,816	2,985,486,845	2,184,713,202	5,170,200,047
Financial liabilities						
Deposits from customers	1,007,248,638	1,408,280,468	2,415,529,106	1,084,139,596	1,125,813,868	2,209,953,464
Deposits and placement by bank and other financial institutions	1,010,892	142,196,779	143,207,671	840,763	111,914,209	112,754,972
Bills sold under repurchase agreements	129,960,388	-	129,960,388	-	99,799,000	99,799,000
Borrowings	553,094,842	839,082,049	1,392,176,891	409,821,669	602,572,420	1,012,394,089
Debt securities issued	160,000,000	1,409,366,930	1,569,366,930	-	1,175,921,345	1,175,921,345
Subordinated debt	-	24,895,300	24,895,300	-	29,939,700	29,939,700
Other liabilities (*2)	107,180,360	102,189,815	209,370,175	137,106,798	93,354,043	230,460,841
	1,958,495,120	3,926,011,341	5,884,506,461	1,631,908,826	3,239,314,585	4,871,223,411
Off-balance foreign currency exposure, net		1,585,454,291			1,187,650,650	
Net foreign currency exposure		(38,206,431)			133,049,267	

(*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 2016 and 2015 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
2016		
At 31 December	3,820,643	(3,820,643)
2015		
At 31 December	(13,304,927)	13,304,927

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 2016 and 2015, 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 2016 and 2015, 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 2016 and 2015, respectively, were as following:

	2016 MNT'000	2015 MNT'000
Tier 1 capital	559,892,249	490,113,103
Tier 2 capital	173,983,557	173,222,689
Total Tier 1 and Tier 2 capital	733,875,806	663,335,792
Risk weighted assets	5,019,707,306	3,980,409,511
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets ("CAR")	14.62%	16.67%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("TCAR")	11.15%	12.31%

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)		2016		2015	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash on hand	5	73,377,054	73,377,054	62,391,612	62,391,612
Deposits and placements with banks and other financial institutions	5	1,115,445,356	1,115,445,356	632,568,089	632,568,089
Investment securities	6	1,525,435,217	1,401,861,397	1,412,539,922	1,447,532,256
Loans and advances to customers	8	2,835,167,306	2,872,860,132	2,644,979,617	2,672,755,808
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	577,178,883	577,178,883	312,996,724	312,996,724
		6,130,603,816	6,044,722,822	5,169,274,964	5,232,043,489
Financial liabilities					
Deposits from customers	16	2,415,529,106	2,413,087,367	2,209,953,464	2,208,001,687
Deposits and placements by banks and other financial institutions	17	143,207,671	143,207,671	112,754,972	112,754,972
Bills sold under repurchase agreements	18	129,960,388	129,960,388	99,799,000	99,799,000
Borrowings	19	1,392,176,891	1,392,176,891	1,012,394,089	1,012,394,089
Debt securities issued	20	1,569,366,930	1,372,738,626	1,175,921,345	1,151,884,991
Subordinated debt securities issued	21	24,895,300	24,461,061	29,939,700	29,501,465
Other liabilities(*2)	22	209,370,175	209,370,175	230,460,841	230,460,841
		5,884,506,461	5,685,002,179	4,871,223,411	4,844,797,045

(*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 2016 and 2015 were as follows:

(In MNT'000)

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

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

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

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

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

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

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

(In MNT'000)

	2015(*2)			
	Level 1	Level 2	Level 3(*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 were excluded.

(*2) There was no transfer between level 1 and level 2 for the year ended 31 December 2015.

40 Fair values of financial assets and liabilities (continued)

(*3) The fair value of level 3 financial instrument was measured by discounted cash flow method using market unobservable forward exchange rate. USD to MNT forward exchange rate is 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 recognised 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.

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 2016 and 2015 were as follows:

(In MNT'000)

	2016			
	Level 1	Level 2	Level 3	Total
Cash on hand	73,377,054	-	-	73,377,054
Deposits and placements with banks and other financial institutions	-	-	1,115,445,356	1,115,445,356
Investment securities (HTM)	-	1,084,855,571	-	1,084,855,571
Loans and advances	-	-	2,872,860,132	2,872,860,132
Subordinated loans	-	-	4,000,000	4,000,000
Spot receivables	9,146,782	-	-	9,146,782
Other assets(*1)	-	-	209,057,978	209,057,978
	82,523,836	1,084,855,571	4,201,363,466	5,368,742,873
Deposits from customers	-	-	2,413,087,367	2,413,087,367
Deposits and placements by banks and other financial institutions	-	-	143,207,671	143,207,671
Bills sold under repurchase agreements	-	-	129,960,388	129,960,388
Borrowings	-	-	1,392,176,891	1,392,176,891
Debt securities issued	-	1,372,738,626	-	1,372,738,626
Subordinated debt securities issued	-	24,461,061	-	24,461,061
Spot payables	9,173,670	-	-	9,173,670
Other liabilities(*2)	-	-	152,906,967	152,906,967
	9,173,670	1,397,199,687	4,231,339,284	5,637,712,641

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

40 Fair values of financial assets and liabilities (continued)

(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.

41 Offsetting financial assets and liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as at 31 December 2016 and 2015 are as follows:

(In MNT'000)

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

41 Offsetting financial assets and liabilities (continued)

(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.

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	2016 MNT'000	2015 MNT'000
Letters of credit and guarantees	639,918,016	393,897,555
Loan and credit card commitments	172,678,391	160,542,611
Unfunded Syndicated risk participation	111,791,240	134,518,272

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

EMC Matter

In January 2017, a working group (WG) formed by Legal Standing Committee of Parliament of Mongolia issued an investigation report on the Mongolian Copper Corporation's acquisition of 49% stake in Erdenet Mining Corporation (EMC) (the "Deal"), where the Group provided financing to Mongolian Copper Corporation LLC (MCC).

The WG's report alleged that the Group might have financed the Deal indirectly through the loans originated to United Energy System LLC (UES) and Kanetic LLC (KNK) in addition to the above mentioned loans to MCC were able to acquire 49% of EMC Shares, together with funding from other companies' such as QSC LLC and Riverstone Properties LLC. The report alleged that the Group's loan extended to the companies involved in the Deal exceeded thelimits on the exposure to single party and related parties per the Banking Law of Mongolia. Furthermore, the report alleged that the fund provided to the Deal might have been originally provided by Government of Mongolia (GoM) to the Group. Based on this allegation, the report claims that the Group breached the limits on the exposure to single related party and related parties per the Banking Law of Mongolia.

Based on the report, Mongolia Parliament announced resolution in February 2017 that GoM shall take 49% share from MCC and payment to be made shall deduct the alleged funding from GoM to the Group and GoM shall implement required actions on those who breached Mongolian laws and regulations.

Bank of Mongolia (BoM) investigated all relevant documents and other documents furnished to State Legal Entities Registration Office (SLERO). The Group also submitted monthly related party loan reports to BoM. BoM did not formally communicate with the Group regarding any findings from their investigation.

42 Commitment and contingent liabilities (continued)

EMC Matter (Continued)

As of the end or 2016 total exposure to the Group was as below:

- KNK paid fully it's loan back in August 2016 and there is no outstanding balance.
- UES's loan is performing normal and has outstanding balance of USD 21,522,755.61
- MCC's loan is performing normal and has outstanding balance of USD 55,969,719.59

The Group believed that loans to those entities were extended within legal and regulatory framework of Mongolia and the Group did not breach single and related party loan exposure in terms of loans extended to above mentioned entities, based on the documents furnished to SLERO and to the Group by MCC, KNK and UES.

Even in case of the EMC's 49 percent share is taken by the GoM from MCC above loans will be paid before their maturity and at this time it is uncertain any adverse effect and material loss may cause to the Group.

43 Interests in unconsolidated structured entities

Nature of risk associated with interests in unconsolidated structured entities as at 31 December 2016 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	2,150,867,102

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

	Securitisation vehicles for loans and advances
Asset:	
Investment securities	57,919,000

TDB

TRADE & DEVELOPMENT BANK

Trade and Development Bank, 14210 Peace avenue 19, Sukhbaatar district 1st khoroo, Ulaanbaatar, Mongolia

Tel: 1900-1977 | **E-mail:** info@tdbm.mn | **Website:** www.tdbm.mn
Facebook: www.tdbm.mn/facebook | **Twitter:** www.tdbm.mn/twitter