TransBank
ТЭЭВЭР ХӨГЖЛИЙН БАНК

TRANSPORT AND DEVELOPMENT BANK LLC

FINANCIAL STATEMENTS 2017

For the year ended 31 December

(With independent Auditors' Report Thereon)

Contents

Transport and Development Bank LLC

Bank Information

Registered address	Transport and Development Bank LLC Shangri-La office, 15th floor, Olympic Street, Sukhbaatar district, 1st khoroo, Ulaanbaatar, Mongolia
Shareholders	Temuujin. M (68%) Oyungerel. D (13.49%) Bold. L (10.35%) Infrastructure LLC (8.16%)
Board of Directors	Enkhbayar. O Purevdorj. T Dashchoinkhor. D Munkhzaya. B Tumenjargal. D
Chief Executive Officer	Otgonbayar. M
Auditor	KPMG Audit LLC #602, Blue Sky Tower, Peace Avenue 17, 1st khoroo, Sukhbaatar District, Ulaanbaatar 14240, Mongolia

Management's Responsibility Statement

The Bank's management is responsible for the preparation of the financial statements.

The financial statements of Transport and Development Bank LLC ("the Bank") have been prepared to comply with International Financial Reporting Standards. The management is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2017 and the financial performance and cash flows for the year then ended on that date.

The management has responsibility for ensuring that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank and which enable them to ensure that the financial statements comply with the requirements set out in note 2 and note 3 thereto.

The management also has a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The management considers that, in preparing the financial statements on pages 6 to 50, it has used appropriate policies, consistently applied and supported by reasonable and prudent judgment and estimates, and that all applicable accounting standards have been followed.

The financial statements of the Bank for the year ended 31 December 2017 were authorized for issuance by the Bank's management.

Otgonbayar. M
Chief Executive Officer

Sainbileg. Ch
Chief Finance Officer

Ulaanbaatar,
Mongolia

Date: 14 February 2018

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Independent Auditors' Report

To The Shareholders and Board of Directors of Transport and Development Bank LLC:

Opinion

We have audited the accompanying financial statements of Transport and Development Bank LLC ("the Bank"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Other Matter – Prior Year Auditor

The financial statements of the Bank as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unqualified opinion on those statements on 15 March 2017.

KPMG Audit LLC

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

KPMG Audit LLC
Ulaanbaatar, Mongolia
14 February 2018

This report is effective as of 14 February 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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. Furthermore, this report is intended solely for the use of the shareholders of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the content of this report.

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Profit or Loss and Other Comprehensive Income
As at 31 December 2017

(In thousands of MNT)	**Notes**	**2017**	**2016**
Interest and similar income	*4*	3,504,840	345,725
Interest and similar expense	*5*	(825,382)	(1,859)
Net interest income		**2,679,458**	**343,866**
Fee and commission income	*6*	94,703	85
Fee and commission expense	*6*	(131,864)	(24,318)
Net fee and commission expense		**(37,161)**	**(24,233)**
Net trading expense	*7*	(102,884)	(174)
Net other operating income	*8*	892,212	292,270
Total operating income		**3,431,625**	**611,729**
Operating expenses	*9*	(1,797,342)	(800,080)
Non-operating expenses	*10*	(432,579)	(88,030)
Profit (loss) before credit losses		**1,201,704**	**(276,381)**
Impairment reversal / (losses)	*11*	993,413	(150,332)
Profit (loss) before tax		**2,195,117**	**(426,713)**
Income tax expense	*12*	(245,144)	-
Net profit (loss) for the year		**1,949,973**	**(426,713)**
Total comprehensive income (loss) for the year		**1,949,973**	**(426,713)**

The accompanying notes form an integral part of these financial statements.

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Financial Position
For the year ended 31 December 2017

(In thousands of MNT)	Notes	31 Dec 2017	31 Dec 2016
Assets			
Cash and balances with Bank of Mongolia	*13*	91,943,312	162,614
Due from banks	*14*	431,350	69,352
Financial investments - available-for-sale	*15*	36,950,057	-
Loans and advances to customers	*16*	70,483,771	7,324,725
Property and equipment	*17*	1,734,329	740,949
Intangible assets	*18*	540,031	7,764
Other assets	*19*	963,714	400,702
Assets held for sale	*20*	-	1,181,325
Total assets		**203,046,564**	**9,887,431**
Equity and Liabilities			
Liabilities			
Due to banks	*21*	109,911,583	-
Repurchase agreements	*22*	36,940,917	-
Due to customers	*23*	254,343	208,974
Other liabilities	*24*	10,287,878	193,404
Income tax payable		228,605	5,146
Total liabilities		**157,623,326**	**407,524**
Equity			
Share capital	*25*	50,000,000	16,000,000
Other reserves		28,518	44,300
Accumulated losses		(4,605,280)	(6,564,393)
Total equity		**45,423,238**	**9,479,907**
Total equity and liabilities		**203,046,564**	**9,887,431**

The accompanying notes form an integral part of these financial statements.

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Changes in Equity
For the year ended 31 December 2017

(In thousands of MNT)	**Share capital (Note 25)**	**Other reserves**	**Accumulated losses**	**Total equity**
Balance at 1 January 2016	16,000,000	44,300	(6,137,680)	9,906,620
Loss for the year	-	-	(426,713)	(426,713)
Balance at 31 December 2016	**16,000,000**	**44,300**	**(6,564,393)**	**9,479,907**
Balance at 1 January 2017	16,000,000	44,300	(6,564,393)	9,479,907
Total comprehensive income				
Profit for the year	-	-	1,949,973	1,949,973
Transactions with owners, recorded directly in equity				
Contribution from the shareholders	34,000,000	-	-	34,000,000
Other movements	-	(15,782)	9,140	(6,642)
At 31 December 2017	**50,000,000**	**28,518**	**(4,605,280)**	**45,423,238**

The accompanying notes form an integral part of these financial statements.

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Cash Flows
For the year ended 31 December 2017

(In thousands of MNT)	***Notes***	**2017**	**2016**
Cash flows from operating activities			
Profit/ (loss) for the year		1,949,973	(426,713)
Adjustment for:			
Depreciation of property and equipment	*9, 17*	91,749	60,953
Amortisation of intangible assets	*9, 18*	126,238	267
Write-off of property and equipment	*10, 17*	5,955	77,742
Loss on disposal of property and equipment	*10, 17*	235,769	-
Gain on disposal of foreclosed assets	*8, 20*	(531,459)	-
Net interest income	*4, 5*	(2,679,458)	(343,866)
Impairment (reversal) / losses	*11*	(993,413)	150,332
Income tax expense	*12*	245,144	-
Changes in assets and liabilities:			
Loans and advances to customers	*16*	(61,845,359)	278,115
Reserves with Bank of Mongolia	*26*	(6,948,953)	(13,071)
Other assets		(557,973)	(101,339)
Due to banks	*21*	109,911,583	-
Repurchase agreements	*22*	36,940,917	-
Due to customers	*23*	45,369	93,578
Other liabilities		10,019,294	149,027
Interest received		3,167,430	373,165
Interest paid		(750,202)	(1,859)
Income taxes paid		(21,685)	(2,585)
Net cash provided by operating activities		**88,410,919**	**293,746**
Cash flows from investing activities			
Acquisition of property and equipment	*17*	(1,921,818)	(110,526)
Acquisition of intangible assets	*18*	(658,505)	(6,747)
Proceeds from disposal of property and equipment	*17*	591,280	-
Proceeds from disposal of foreclosed assets	*20*	1,712,784	-
Acquisition of investment securities	*15*	(36,940,917)	-
Net cash used in investing activities		**(37,217,176)**	**(117,273)**
Cash flows from financing activities			
Proceeds from issuance of shares	25	34,000,000	-
Net cash provided by financing activities		**34,000,000**	**-**
Net change in cash and cash equivalents		**85,193,743**	**176,473**
Cash and cash equivalents at 1 January	*26*	207,448	30,975
Cash and cash equivalents at 31 December	*26*	**85,401,191**	**207,448**

The accompanying notes form an integral part of these financial statements.

1. Reporting entity

Transport and Development Bank LLC ("the Bank") is a limited liability company, incorporated and domiciled in Mongolia. The registered address and the principal place of business of the Bank is Shangri-La office, 15th floor, Olympic street, Sukhbaatar district, 1st khoroo, Ulaanbaatar, Mongolia.

The Bank was given permission to conduct banking activities by the President of the Bank of Mongolia ("BOM") on 28 February 1997 in accordance with the Banking Law of Mongolia. The Bank holds the State Registration Certificate No. 9016001016 with Registry No. 2078201 issued on 22 January 1997 by the General Authority for State Registration and Banking License No. 12 issued by the Bank of Mongolia.

Due to previous shareholders disputes and failures of compliance of the banking operation with regulations, permission for only ordinary banking activities was granted to the Bank in accordance with Decree No. A/229 of the President of the Bank of Mongolia on 9 December 2013. In addition, more banking activities were restricted by Decree No. A/271 of the President of the Bank of Mongolia on 30 September 2016 due to insufficient capital ratio and the suspension of banking activities.

The current shareholders acquired the Bank from the previous shareholders on 27 October 2016 and prolonged disputes between the previous shareholders were resolved at the judicial court.

In 2017, new shareholders recapitalized the Bank through a capital increase of MNT 34,000,000 thousand and submitted a request to the BOM to increase its share capital by a further MNT 22,000,000 thousand. BOM approved the further increase on 5 December 2017. The Bank expects to receive the related contributions from shareholders in the first quarter of 2018.

Since March 2017, the Bank has started to comply with commercial prudential ratios set by the BOM and was given permission to perform ordinary and additional banking activities pursuant to Decree No. A-176 issued by the President of the Bank of Mongolia on 19 June 2017. In addition, the Bank obtained approvals for permissions for the remaining restricted activities on 14 February 2018. The Bank is owned by three individuals and one company. The ultimate controlling party is an individual, Mr. Temuujin.M.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the items described otherwise in the related notes.

(c) Functional and presentation currency

The financial statements are presented in Mongolian tugrug ("MNT") which is also the functional currency of the Bank and the currency of the primary economic environment in which the Bank operates. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2. Basis of preparation

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, current and expected economic conditions. 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.

(i) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

(a) Interest income recognition – Note 3 (k);
(b) Impairment of financial and non-financial assets – Notes 3 (g) and 3 (h);
(c) Available-for-sale investment securities;
(d) Useful lives of property and equipment – Note 3(e);
(e) Useful lives of intangible assets – Note 3(f).

(ii) Fair value measurement

The Bank aims to use the best available observable inputs in the market when measuring fair values of assets or liabilities. Fair values are classified within the fair value hierarchy based on inputs used in valuation method, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If various inputs used to measure the fair value of assets or liabilities are transferred between levels of the fair value hierarchy, the Bank classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy which is significant to the entire measured value and recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

(iii) Going concern

The financial statements have been prepared on a going concern basis, which management has assessed as being appropriate.

3. Significant accounting policies

The significant accounting policies applied by the Bank in preparation of its financial statements are included below. The accounting policies set our below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to MNT at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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 recognized in other comprehensive income are reclassified to profit or loss), are recognized in other comprehensive income.

(b) Financial assets and financial liabilities

i. *Recognition*

The Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade, which is the date on which the Bank becomes a party to contractual provisions of the instruments.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

ii. *Classification*

Financial assets

The Bank classifies its financial assets into one of the following categories:

- Loans and receivables;
- Held to maturity;
- Available for sale; and
- At fair value through profit or loss, and within this category as:
  - Held for trading; or
  - Designated at fair value through profit or loss.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss.

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 recognized 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 amortized cost less impairment losses where applicable. Amortized 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 amortized based on the effective interest rate of the instrument.

iv. *Derecognition*

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial assets are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

iv. *Derecognition, continued*

The derecognition criteria are also applied to the transfer of part of an asset, rather than the asset as a whole, or to a Bank 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.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

v. *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

vi. *Amortized cost measurement*

The "amortized cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(d) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

3. Significant accounting policies, continued

(d) Investment securities, continued

i. *Held-to-maturity*

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or re-classifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or re-classifications after the Bank has collected substantially all of the asset's original principal; and
- sales or re-classifications that are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

ii. *Fair value through profit or loss*

The Bank designates some investment securities as at fair value, with fair value changes recognized immediately in profit or loss.

iii. *Available-for-sale*

Available-for-sale investments are non-derivative investments that are designated as available- for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3. Significant accounting policies, continued

(e) Property and equipment

Property and equipment is initially measured at cost and after initial recognition, is carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Subsequent costs are recognized in the carrying amount of property and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property and equipment are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized as other non-operating income (loss).

The estimated economic useful life for the current and comparative years of significant items of property and equipment is as follows:

	Useful lives (years)
Furniture and fixtures	10
Vehicles	10
Computers and others	3

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(f) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current period is three years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3. Significant accounting policies, continued

(g) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the bank.

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.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

The Bank considers evidence of impairment for held-to-maturity investment securities at a specific asset level.

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised, are not included in a collective assessment of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

3. Significant accounting policies, continued

(g) Impairment of financial assets, continued

Impairment losses are recognised in profit or loss and reflected in an allowance against held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through other comprehensive income. Any subsequent recovery in the fair value of an impaired available-for-sale asset is always recognised in other comprehensive income.

(h) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating units exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

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.

3. Significant accounting policies, continued

(i) Equity capital

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

(j) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Bank during an accounting period, the Bank recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Social and health insurance

As required by law, companies in Mongolia make social security and health contributions to the Social and Health Insurance scheme and such contributions are recognized as an expense in the comprehensive income statement as incurred.

(k) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis:
- interest on available-for-sale investment securities calculated on an effective interest basis
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash lows, in the same period as the hedged cash flow affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

3. Significant accounting policies, continued

(k) Interest, continued

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of profit or loss and other comprehensive income.

(l) Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(m) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(n) Net income from other financial instruments at fair value through profit and loss

Net income from other financial instruments at fair value through profit and loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and financial liabilities designated at fair value through profit or loss. It includes all realized and unrealized at fair value through profit or loss or other revenue foreign exchange differences.

(o) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

3. Significant accounting policies, continued

(p) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized.

However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and the carrying amount reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

If there is any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognized when liabilities relating to the dividend payments are recognized.

3. Significant accounting policies, continued

(q) Related parties

For the purposes of these financial statements, a party is considered to be related to the Bank if:

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Bank or exercise significant influence over the Bank in making financial and operating policy decisions, or has joint control over the Bank;

ii. the Bank and the party are subject to common control;

iii. he party is a member of key management personnel of the Bank or the Bank's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;

iv. the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

v. the party is a post-employment benefit plan which is for the benefit of employees of the Bank or of any entity that is a related party of the Bank.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, or later and have not yet been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, 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, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. As the Bank started actively operating during the second half of 2017, and it has a limited number of loans which were issued mainly towards the end of the year, a material impact on the net assets position of the Bank upon adoption of IFRS 9 as at 1 January 2018 is not expected.

In 2017, the Bank of Mongolia announced that the adoption of IFRS 9 for commercial banks in Mongolia should be deferred until 2020. The Bank is currently assessing the potential impact on its financial statements resulting from this delay in the adoption of IFRS 9, including considering the impact on its accounting reporting framework and its compliance with IFRS. As a result, the Bank has not yet assessed the full impact of adopting IFRS 9.

3. Significant accounting policies, continued

(r) New standards and interpretations not yet adopted, continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 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*.

The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank has assessed the expected impact of the adoption of IFRS 15 on its financial statements, based on which the Bank does not expect that IFRS 15 will have a material impact on the timing of recognizing, or the measurement of, interest, and fees and commission income generated in relation to its current operations.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts* with Customers at or before the date of initial application of IFRS 16. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

4. Interest and similar income

(In thousands of MNT)	2017	2016
Loans and advances to customers	2,569,261	345,725
Balances with Bank of Mongolia	845,571	-
Due from banks	90,008	-
	3,504,840	**345,725**

5. Interest and similar expense

(In thousands of MNT)	2017	2016
Due to banks	761,018	-
Due to customers	1,994	1,859
Repurchase agreements	62,370	-
	825,382	**1,859**

6. Net fee and commission income (expense)

(In thousands of MNT)	2017	2016
Fee and commission income		
Transaction fees	297	-
Account service fees	57,604	85
Other fees	36,802	-
	94,703	**85**
Fee and commission expense		
Card transaction charges	(5,611)	-
Bank service fees	(60,774)	(516)
Other fees	(65,479)	(23,802)
	(131,864)	**(24,318)**
	(37,161)	**(24,233)**

7. Net trading income

(In thousands of MNT)	2017	2016
Foreign exchange trading income	295,272	-
Foreign exchange trading expense	(398,156)	(174)
	(102,884)	**(174)**

8. Net other operating income

(In thousands of MNT)	2017	2016
Foreign currency gains (losses)	5,877	(10,699)
Gain on disposal of foreclosed assets	531,459	-
Repayment of loans written-off	294,801	267,308
Other	60,075	35,661
	892,212	**292,270**

9. Operating expenses

(In thousands of MNT)	2017	2016
Personnel expenses*	933,011	621,894
Rental	238,322	-
Amortization of intangible assets (Note 18)	126,238	267
Depreciation (Note 17)	91,749	60,953
Repairs and maintenance	90,525	5,858
Professional service fees	75,858	24,313
Security	53,671	12,800
Utilities	32,522	30,657
Stationary	21,621	7,976
IT and communication	16,536	11,028
Advertising and marketing	15,828	2,310
Labour safety	11,510	529
Insurance	9,338	396
Transportation	6,892	2,228
Other expenses	73,721	18,871
	1,797,342	**800,080**

(In thousands of MNT)	2017	2016
Personnel expenses*		
Salaries	670,468	351,645
Contribution to social and health insurance	73,740	31,802
Employees' training	9,882	-
Travel	136,311	1,020
Other employees' expense	42,610	237,427
	933,011	**621,894**

10. Non-operating expenses

(In thousands of MNT)	2017	2016
Loss on write-off of property and equipment	5,955	77,742
Loss on disposal of property and equipment	235,769	-
Meals and entertainment	41,150	917
Penalties	66,594	231
Others	83,111	9,140
	432,579	**88,030**

11. Impairment reversal / (losses)

(In thousands of MNT)	2017	2016
Loans and advances to customers (Note 16)	(325,677)	(104,828)
Reversal of credit risk allowance (Note 16)	1,301,954	4,429
Assets held for sale	-	(49,740)
Other receivables	-	(193)
Reversal of bad debt allowance	17,136	-
	993,413	**(150,332)**

12. Income tax expense

(1) Income tax expense consists of the following:

(In thousands of MNT)	2017	2016
Income tax expense		
Current tax expense	245,144	-
	245,144	**-**

(2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes is attributable to the following:

(In thousands of MNT)	2017	2016
Profit / (loss) before tax	2,195,117	(426,713)
Tax at statutory rate of 10% (2016: 10%)	219,512	(42,671)
Effect of non-deductible expense	135,044	182,921
Effect of income not subject to income tax	(82,428)	(140,250)
Recognition of previously unrecognized tax losses	(48,183)	-
Tax effect of special tax rate	21,199	-
	245,144	**-**

(*) According to Mongolian Corporate Income Tax Law, a 10% tax rate is applied for taxable profits up to MNT 3 billion and 25% for taxable profits in excess of MNT 3 billion.

12. Income tax expense, continued

(3) The Government of Mongolia continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly.

These changes are sometimes characterized by poor drafting, varying interpretations and inconsistent application by the tax authorities. In particular, taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Bank believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation and status at the period-end, the above facts may create tax risks for the Bank which are not possible to quantify at this stage.

13. Cash and balances with Bank of Mongolia

(In thousands of MNT)	**2017**	**2016**
Cash on hand	421,601	108,834
Current account with BOM (MNT) *	45,977,080	50,771
Current account with BOM (Foreign currency)*	27,708,021	3,009
Securities (up to 3 months)	17,836,610	-
	91,943,312	**162,614**

(*) Current accounts with BOM are maintained in accordance with BOM regulations. The balances maintained with BOM are determined at not less than 12% (2016: 12%) of customer deposits for a period of 2 weeks. As at 31 December 2017, the average reserve required by the BOM for that period of 2 weeks was MNT 2,524,852 thousand (2016: MNT 16,328 thousand) for local currency and MNT 4,448,619 thousand (2016: MNT 8,190 thousand) for foreign currency maintained in current accounts with BOM.

14. Due from banks

(In thousands of MNT)	**2017**	**2016**
Placements with other banks and financial institutions	431,350	69,352
	431,350	**69,352**

Due from banks represent local and foreign currency current accounts and deposits maintained with local and foreign financial institutions.

15. Financial investments – available-for-sale

(In thousands of MNT)	**2017**	**2016**
BOM treasury bills	36,940,917	-
Equity investments, at cost	9,140	-
	36,950,057	**-**

15. Financial investments – available-for-sale, continued

The BOM treasury bills ("BOM bills") and bills of exchange are short-term investments acquired at a discount. The carrying amount approximates fair value.

Unquoted equities comprise interests in unquoted entities: Mongolian Banking Association, Credit bureau, CGF LLC "Credit Guarantee Fund". Interests in unquoted equities are recorded at cost as the fair value cannot be measured reliably. The variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be significant. There is no active market for these investments.

16. Loans and advances to customers

(In thousands of MNT)	2017	2016
Investment loans	36,769,612	6,251,366
Working capital loans	33,255,744	2,943,460
Mortgages	370,963	107,422
Other consumer loans	102,536	-
	70,498,855	**9,302,248**
Accrued interest receivables	337,410	-
Gross loans and advances to customers	**70,836,265**	**9,302,248**
Less: Allowances for loans and advances to customers	(352,494)	(1,977,523)
Net loans and advances to customers	**70,483,771**	**7,324,725**

A reconciliation of the allowance for impairment losses for loans and advances to customers by type is as follows:

(In thousands of MNT)	Investment loans	Working capital	Mortgages	Others	Total
At 31 December 2017					
At 1 January 2017	461,366	1,515,620	537	-	1,977,523
Charge for the year (Note 11)	155,555	151,110	18,499	513	325,677
Reversal of impairment allowance (Note 11)	(171,293)	(1,114,542)	(16,119)	-	(1,301,954)
Written off	(254,022)	(384,393)	-	-	(638,415)
Effect of foreign currency movements	(10,337)	-	-	-	(10,337)
At 31 December 2017	**181,269**	**167,795**	**2,917**	**513**	**352,494**

16. Loans and advances to customers, continued

A reconciliation of the allowance for impairment losses for loans and advances to customers by type is as follows, continued:

(In thousands of MNT)	Investment loans	Working capital	Mortgages	Others	Total
At 31 December 2016					
At 1 January 2016	116,450	1,709,286	-	1,555	1,827,291
Charge for the year (Note 11)	296,832	(192,542)	537	-	104,827
Reversal of impairment allowance (Note 11)	(1,750)	(1,124)	-	(1,555)	(4,429)
Effect of the foreign currency movements	49,834	-	-	-	49,834
At 31 December 2016	**461,366**	**1,515,620**	**537**	**-**	**1,977,523**

17. Property and equipment

Changes in property and equipment are as follows:

(In thousands of MNT)	Buildings	Office furniture	Computer equipment	Vehicles	Total
At 31 December 2017					
Cost:					
At 1 January 2017	804,663	244,687	167,796	9,555	1,226,701
Additions	236,400	361,545	137,005	1,186,868	1,921,818
Disposals	(1,041,063)	-	-	-	(1,041,063)
Write-off	-	(45,325)	(17,521)	-	(62,846)
Adjustment	-	(2,268)	2,323	-	55
At 31 December 2017	-	558,639	289,603	1,196,423	2,044,665
Accumulated depreciation:					
At 1 January 2017	208,985	212,554	64,213	-	485,752
Charge for the year (Note 9)	5,029	21,846	47,453	17,421	91,749
Disposals	(214,014)	-	-	-	(214,014)
Write-off	-	(40,176)	(16,715)	-	(56,891)
Adjustment	-	1,989	1,672	79	3,740
At 31 December 2017	-	196,213	96,623	17,500	310,336
Net carrying amount					
31 December 2017	**-**	**362,426**	**192,980**	**1,178,923**	**1,734,329**

17. Property and equipment, continued

Changes in property and equipment are as follows, continued:

(In thousands of MNT)	Buildings	Office furniture	Computer equipment	Vehicles	Total
At 31 December 2016					
Cost:					
At 1 January 2016	804,663	350,405	66,825	-	1,221,893
Additions	-	-	100,971	9,555	110,526
Write-off	-	(105,718)	-	-	(105,718)
Adjustment	-	-	-	-	-
At 31 December 2016	804,663	244,687	167,796	9,555	1,226,701
Accumulated depreciation:					
At 1 January 2016	188,868	209,256	55,297	-	453,421
Charge for the year (Note 9)	20,117	31,123	9,713	-	60,953
Write-off	-	(27,976)	-	-	(27,976)
Adjustment	-	151	(797)	-	(646)
At 31 December 2016	208,985	212,554	64,213	-	485,752
Net carrying amount					
31 December 2016	**595,678**	**32,133**	**103,583**	**9,555**	**740,949**

18. Intangible assets

Changes in intangible assets are as follows:

(In thousands of MNT)	2017	2016
Software		
Acquisition cost:		
Balance at 1 January	27,804	21,057
Additions	658,505	6,747
Write off	(21,923)	-
Adjustment	1,687	-
Balance at 31 December	666,073	27,804
Accumulated amortization :		
Balance at 1 January	20,040	19,795
Amortization charge	126,238	267
Write off	(21,923)	-
Adjustment	1,687	(22)
Balance at 31 December	126,042	20,040
Carrying amounts:		
Balance at 1 January	7,764	1,262
Balance at 31 December	**540,031**	**7,764**

19. Other assets

(In thousands of MNT)	2017	2016
Prepayments and advances	939,017	363,363
Supplies and materials	24,697	37,273
Other assets	-	66
	963,714	**400,702**

20. Assets held for sale

(In thousands of MNT)	2017	2016
Foreclosed assets	-	1,712,784
Less: Allowance for impairment losses	-	(531,459)
	-	**1,181,325**

(In thousands of MNT)	2017	2016
At 1 January	531,459	481,719
Charge for the year (Note 11)	-	49,740
Utilization of foreclosed asset allowance (Note 8)	(531,459)	-
At 31 December	-	**531,459**

The Bank fully derecognized the loan and loan loss provision related to some borrowers and recognized related collateral assets as foreclosed assets. The repossessed assets were measured at the lower of cost or fair value less cost to sell. In 2017 these repossessed assets were sold.

21. Due to banks

(In thousands of MNT)	2017	2016
Deposits from other banks and financial institutions	101,911,583	-
Loans and advances	8,000,000	-
	109,911,583	-

Deposits from other banks and financial institutions represent foreign currency and local currency accounts and deposits placed by local commercial banks.

The loans and advances represent a short term loan with maturity of 5 days withdrawn on 28 December 2017.

22. Repurchase agreements

Contract party	Sold date	Maturity	Interest rate	2017 MNT'000
Trade and Development Bank	28 Dec 2017	2 Jan 2018	11.0%	11,981,945
Khan Bank	28 Dec 2017	2 Jan 2018	12.0%	24,958,972
				36,940,917

The Bank sold BOM bills with an agreement to repurchase them in the future. The repurchase agreement duration is 5 days. The fair value of the bills approximate their carrying amount.

23. Due to customers

(In thousands of MNT)	2017	2016
Private sector deposits		
Current accounts	196,406	122,869
Individual deposits		
Current accounts	28,841	45,105
Demand deposits	29,096	40,280
Financial institution deposits		
Current accounts	-	720
	254,343	**208,974**

24. Other liabilities

(In thousands of MNT)	2017	2016
Payable to Deposit Insurance Corporation	10,000,000	-
Accrued interest payable	134,263	-
Other tax payables	108	1,244
Delay on clearing settlement	5,427	20
Other payables	148,080	192,140
	10,287,878	**193,404**

On 3 November 2017, the Bank concluded an investment intermediary contract with Deposit Insurance Corporation (DIC) for one year to purchase BOM bills on behalf of DIC amounting to MNT 10 billion. In accordance with the contract, the Bank will receive commission fees based on a percentage of the purchased BOM bills.

25. Share capital

	Number of ordinary shares			
	2017	2016	2017 MNT'000	2016 MNT'000
At 1 January	16,000,000	16,000,000	16,000,000	16,000,000
Issued during the year	34,000,000	-	34,000,000	-
At 31 December	**50,000,000**	**16,000,000**	**50,000,000**	**16,000,000**

At 31 December 2017, 50,000,000 shares were issued and outstanding out of a total 72,000,000 authorised shares. The Bank is ultimately controlled by an individual.

In accordance with BOM approvals dated 9 August 2017 and 21 September 2017, the share capital of the Bank was increased by MNT 14,000,000 thousand and MNT 20,000,000 thousand, respectively. As at 31 December 2017 and 2016, all issued shares were fully paid and have a par value of MNT 1,000.

In 2017, the Bank submitted a request to the BOM to increase its share capital by a further MNT 22,000,000 thousand and BOM approved the request on 5 December 2017. The Bank is expecting to receive the contributions from the shareholders in the first quarter of 2018.

26. Cash and cash equivalents

(In thousands of MNT)	Note	2017	2016
Cash and balances with BOM	*13*	74,106,702	162,614
Due from banks	*14*	431,350	69,352
BOM treasury bills	*13*	17,836,610	-
		92,374,662	**231,966**
Less: Minimum reserve with BOM not available to finance the Bank's day to day operations	13	(6,973,471)	(24,518)
Total cash and cash equivalents for the statement of cash flow		**85,401,191**	**207,448**

27. Fair value of financial instruments

Determination of fair value and fair value hierarchy

The following table shows an analysis of financial instruments carried at fair value by level of the fair value hierarchy:

(In thousands of MNT)	Level 1	Level 2	Level 3	Total
At 31 December 2017				
Financial assets				
Financial investments – available-for-sale	-	36,940,917	-	36,940,917
	-	**36,940,917**	**-**	**36,940,917**
At 31 December 2016				
Financial assets				
Financial investments – available-for-sale	-	-	-	-
	-	-	-	-

As at 31 December 2017, unquoted equity securities at cost amounting to MNT 9,140 thousand were excluded from the above table.

The fair value of level 2 financial instruments are short term and were measured by valuation techniques using market observable interest rate and similar market inputs.

Transfers between level 1, 2 and 3

There were no transfers between level 1, 2 and 3 of the fair value hierarchy for the assets which are recorded at fair value.

Impact on fair value of level 3 assets and liabilities measured at fair value of changes to key assumptions

Unquoted available-for-sale equities

The impact of the reasonably possible change in the fair value assumptions for level 3 financial instruments is not quantified as the investment is recorded at cost since the fair value cannot be reliably measured.

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

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

27. Fair value of financial instruments, continued

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, time deposits and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia.

The carrying amount of the Bank's financial assets and liabilities that are not carried at fair value in the financial statements approximates to their fair values.

28. Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised in the statement of financial position, they do contain credit and performance risk and are therefore part of the overall risk of the Bank (Note 31.2).

(In thousands of MNT)	**2017**	**2016**
Commitments		
Undrawn commitments to lend	500,000	-
	500,000	**-**

Contingent liabilities

Guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act. Guarantees carry the same risk as loans even though they are of a contingent nature. As of 31 December 2017, the Bank has not yet obtained the permission from BOM to provide any guarantees to the third parties on the behalf of the Bank.

Commitments

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

28. Contingent liabilities and commitments (continued)

Other commitments

The Bank has no commitments to purchase fixed assets or intangible assets as at the year end.

Operating lease commitments - Bank as lessee

The Bank as lessee has entered into operating leases of various buildings under cancellable operating lease agreements. The Bank is required to give 6 month notice for the termination of those agreements. The leases have no purchase option or escalation clauses included in the agreements. There are no restrictions placed upon the Bank by entering these leases.

Minimum lease commitments that the Bank will pay under the non-cancellable operating lease agreements with initial terms of one year or more at 31 December 2017 and 2016 were as follows:

(In thousands of MNT)	**2017**	**2016**
Within a year	762,961	-
1-5 years	3,524,376	-
	4,287,337	**-**

Legal claims

Litigation is a common occurrence in the Banking industry due to the nature of the business. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claim may have on its financial standing. At the year end, the Bank had no unresolved legal claims.

Tax contingencies

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

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

Mongolian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, including those related to domestic transfer pricing. In case of deviation of transaction terms from market terms, the tax authorities have the right to adjust taxable items and to impose additional taxes, fines and interest penalties. Given the brief nature of the current Mongolian transfer pricing rules, the impact of any such challenge cannot be reliably estimated. However, it may be significant to the financial position and/or the overall operations of the entity.

28. Contingent liabilities and commitments (continued)

Asset Quality Review (AQR)

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

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

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

29. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 31.2 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

(In thousands of MNT)	**Less than 12 months**	**More than 12 months**	**Total**
At 31 December 2017			
Financial assets			
Cash and balances with BOM	91,943,312	-	91,943,312
Due from banks	431,350	-	431,350
Financial investments:			
- available-for-sale	36,950,057	-	36,950,057
Loans and advances to customers	13,718,248	56,765,523	70,483,771
Other assets (*1)	-	-	-
	143,042,967	56,765,523	199,808,490
Financial liabilities			
Due to banks	(109,911,583)	-	(109,911,583)
Repurchase agreements	(36,940,917)	-	(36,940,917)
Due to customers	(254,343)	-	(254,343)
Other liabilities (*2)	(10,241,012)	-	(10,241,012)
	(157,347,855)	-	(157,347,855)
	(14,304,888)	**56,765,523**	**42,460,635**

(In thousands of MNT)	**Less than 12 months**	**More than 12 months**	**Total**
At 31 December 2016			
Financial assets			
Cash and balances with BoM	162,614	-	162,614
Due from banks	69,352	-	69,352
Loans and advances to customers	7,324,725	-	7,324,725
Other assets (*1)	66	-	66
	7,556,757	-	7,556,757
Financial liabilities			
Due to customer	(208,974)	-	(208,974)
Other liabilities (*2)	(193,404)	-	(193,404)
	(402,378)	-	(402,378)
	7,154,379	**-**	**7,154,379**

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

29. Related party disclosures

A number of banking transactions are entered into with related parties during the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

The Bank's shareholders until October 2016 were Enkhtaivan.D, Orgilmaa.B and Enkhtuya.D. Those individuals ceased to be the shareholders on 26 October 2016 when their interests in the shares of Transport and Development Bank LLC were sold.

a) Related party balances

(In thousands of MNT)	**Relationship**	**2017**	**2016**
Deposits and current accounts:			
Current accounts	Shareholder	31,735	-
		31,735	**-**

b) Related party transactions

(In thousands of MNT)	**Relationship**	**2017**	**2016**
Property and equipment:			
Property and equipment sold	Former shareholder	-	590,649
Property and equipment purchased	Shareholder	(52,459)	-

c) Compensation of key management personnel

(In thousands of MNT)	**2017**	**2016**
Short term employee benefits:		
Salaries	210,990	132,245
Contribution to social and health fund	23,209	14,547
	234,199	**146,792**

31. Risk management

31.1 Introduction

Risk is inherent in the Bank operation, and arises from the ordinary course of business. The identification, measurement and monitoring of risk are subject to risk limits and other controls. The main risks inherent in the Bank's day to day operation involve credit risk, liquidity risk, foreign currency risk, interest rate risk and operational risk. Such risks could either result in a direct loss in earnings and capital or may result in constraints on the Bank's ability to meet its objectives.

The risk management framework in place is to ensure that:

- ✓ Individuals who manage the risks clearly understand the requirement and measurement system;
- ✓ The Bank's risk exposure is within the limits established by the Board of Directors ("BOD");
- ✓ The risk measured is in line with the business strategy as approved by the BOD;
- ✓ The capital allocation is consistent with the risk of exposures; and
- ✓ The Bank's performance objectives are aligned with the risk tolerance.

31. Risk management, continued

31.1 Introduction, continued

Risk management structure

The Risk Management Division consists of 3 departments, namely Credit Risk Management Department, Operational and Information Systems Risk Management Department, and Market Risk Management Department which report to the Chief Executive Officer ("CEO"). The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. However, there are separate independent bodies responsible for managing and monitoring risks.

Risk Management Committee ("RMC")

The RMC sets the risk management policies and tolerances. RMC is responsible for anticipating and managing new and ongoing financial risk across business departments and maintaining appropriate limits on risk taking, adequate systems and standards for measuring financial risk and performance, comprehensive risk reporting and management review process. It assists the Board of Directors, to monitor the sufficiency of course of actions from CEO towards the loan risk, market risk, liquidity risk and other risk managements, to control the main risks and to form the plans regarding the operations which are related to risk. RMC holds a meeting monthly to consider the risk report and decides the actions to reduce the risk furthermore.

Audit Committee

This committee operates alongside the BOD and is responsible for the monitoring of internal audit and choosing and monitoring of the external audits.

The committee holds meetings quarterly and considers the internal and external reports regarding the risks related to the bank's operation and monitors the actions.

Internal Audit

Risk management main processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee and the Board of Directors.

Assets and Liability Committee

This committee is responsible for implementing the complex management of assets and liabilities and controlling the market and liquidity risk to maintain stability and profitability in consideration of the ability of assets to be realized in cash.

The committee develops a market and liquidity risk strategy and decides the limits, structure and policy for those risks.

31. Risk management, continued

31.1 Introduction, continued

Credit Committee

This committee monitors the loan risk within the authority given by the BOD and with the assistance of the risk management department it develops the strategy and policy for the loan risk management.

It is responsible for:

- ✓ Renewal and approval of loan policies;
- ✓ Regular monitoring of the credit quality, risk portfolio and fulfillment of actions towards reduction of loan risk;
- ✓ Monitoring the loan classification and risk provision;
- ✓ Regular monitoring of the loan, interest repayment, loan usage, borrower's operation, borrower's ability to pay and collaterals; and
- ✓ Deciding the loan limit and amounts by business segment and regional area.

Compliance Division

The Bank structures its Compliance Division under direct supervision of the Chief Executive Officer as an independent and integral part of its business activities. The purpose of the division is to inform and prevent management of the Bank from facing compliance risks and build compliance culture within the Bank by providing clear and coherent internal procedures, adequate and systematic trainings to employees of the Bank. The Compliance Division functions to ensure and monitor appropriate actions are taken to prevent compliance risks, including risks associated with financial crimes. The division's operation, relevant policy and implementations are routinely audited by internal audit department to enhance its efficiency.

Risk measurement and reporting system

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, RMC, and the head of each business division.

Risk mitigation

As part of its overall risk management, the Bank uses basis sensitivity analysis to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks.

31. Risk management, continued

31.2 Credit risk

Excessive Risk Concentration

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. At the individual basis, the BOM sets the standards of limitation on concentrations as follows:

I. The maximum amount of the overall credit exposures issued and other credit-equivalent assets to the individual and his/her related persons shall not exceed 20% of the capital of the Bank.
II. The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed 5% of the capital for one related person to the Bank, and the aggregation of overall lending to the related persons shall not exceed 20% of the capital of the Bank.

The Bank is exposed to credit risk which is the risk that the Bank's customers, clients or counterparties will be unable or unwilling to pay interest, repay capital, or otherwise fulfil their contractual obligations under loan agreements, other credit facilities, or in respect of other financial instruments.

The Bank's RMC, through the Corporate Banking Division ("CBD") promotes diversification of the loan portfolio of the Bank's lending activities. The CBD structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Credit limits for single borrower and portfolio limits by loan products are approved by the Board of Directors and reviewed periodically by the CBD.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collaterals and corporate and personal guarantees. The CBD operates in two main directions which are loan monitoring and portfolio management. Using risk management tools, it assesses the borrowers, classifies assets in the loan portfolio according to Bank of Mongolia guidelines, and establishes allowances for impairment losses. To analyse borrowers' operations and liquidity and to reduce the loan risk CBD has applied a scoring methodology for the individuals' loan analysis.

31. Risk management, continued

31.2 Credit risk, continued

Maximum exposure to credit risk without taking account of collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

(In thousands of MNT)	Note	2017	2016
Cash and balances with BOM (excluding cash on hand)	13	91,521,711	53,780
Due from banks	14	431,350	69,352
Financial investments	15	36,950,057	-
Loans and advances to customers	16	70,836,265	9,302,248
Total on balance sheet		**199,739,383**	**9,425,380**
Commitments	28	500,000	-
Total off balance sheet		**500,000**	**-**
Total credit risk exposure		**200,239,383**	**9,425,380**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations by industry

The table below shows the analysis per industry sector of the Bank's loans and advances to customers (Note 16) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

	2017		2016	
(In thousands of MNT)	**Gross maximum exposure**	**%**	**Gross maximum exposure**	**%**
Transportation & communication	2,504,448	3.5%	-	-
Manufacturing	-	-	2,000,000	21.5%
Trading	12,099,705	17.1%	-	-
Hotel & Restaurant	10,902,739	15.4%	2,000,000	21.5%
Agriculture	-	-	1,147,842	12.3%
Mortgage	372,632	0.5%	107,422	1.2%
Construction	19,372,885	27.3%	2,000,000	21.5%
Mining and Exploration	16,866,722	23.8%	647,689	7.0%
Other	8,717,134	12.4%	1,399,295	15.0%
	70,836,265	**100.0%**	**9,302,248**	**100.0%**

31. Risk management, continued

31.2 Credit risk, continued

Collateral and other credit enhancements

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty and the type of loan granted. The Bank follows the collateral guidelines set by the Credit Committee in determining the type and value of collateral to be obtained.

The Bank performs physical inspection of the collateral and regularly monitors the market value of collateral, requests additional collateral in accordance with underlying agreement, and monitors the market value of collateral obtained during its review of adequacy of the allowance for impairment losses.

Credit quality per class of financial assets

The credit quality of loans and advances to customers is managed by the Bank using internal credit rating.

The following table shows the description of the Credit Risk Grading System of the Bank:

Credit Rating	Grade Description
1	Performing
2	Past due
3	Substandard
4	Doubtful
5	Loss

The Bank's 5-Grade Risk Rating is used in order to categorize exposures according to the risk profile. The Credit Risk Grading System is in compliance with the asset classification and provisioning guidelines issued by the Bank of Mongolia and are based primarily on quantitative factors (such as days in arrears), and qualitative issues are regarded as supplementary.

At 31 December 2017		**Neither past due nor impaired**	**Past due or individually impaired**				
(In thousands of MNT)		**Performing**	**Past due**	**Substandard**	**Doubtful**	**Loss**	**Total**
Cash and balances with BOM	13	91,943,312	-	-	-	-	91,943,312
Due from banks	14	431,350	-	-	-	-	431,350
Financial investments – available-for-sale	15	36,950,057	-	-	-	-	36,950,057
Loans and advances to customers							
Investment	16	36,953,123	-	-	-	-	36,953,123
Working capital	16	33,407,512	-	-	-	-	33,407,512
Mortgages	16	372,632	-	-	-	-	372,632
Other consumer	16	102,998	-	-	-	-	102,998
		70,836,265	-	-	-	-	70,836,265
Total		**200,160,984**	**-**	**-**	**-**	**-**	**200,160,984**

31. Risk management, continued

31.2 Credit risk, continued

At 31 December 2016		Neither past due nor impaired	Past due or individually impaired				
(In thousands of MNT)		Performing	Past due	Substandard	Doubtful	Loss	Total
Cash and balances with BoM	13	162,614	-	-	-	-	162,614
Due from banks	14	69,352	-	-	-	-	69,352
Loans and advances to customers							
Investment	16	2,000,000	4,000,000	-	-	251,366	6,251,366
Working capital	16	1,399,295	37,412	-	-	1,506,753	2,943,460
Mortgages	16	107,422	-	-	-	-	107,422
		3,506,717	4,037,412	-	-	1,758,119	9,302,248
Total		**3,738,683**	**4,037,412**	**-**	**-**	**1,758,119**	**9,534,214**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

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

31.3 Liquidity risk

The Bank is exposed to liquidity risks that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Bank sets limits on the minimum funding composition that should be in place to cover withdrawals at unexpected levels of demand. It is the Bank's policy to maintain a prudent mix of borrowed and core deposit base. In addition, the Bank maintains a statutory deposit with BoM equal to 12% (2016: 12%) of customer deposits based on an average period of two weeks.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history. The liabilities are sufficiently covered by liquid assets the Bank had as of the end of 2017.

31. Risk management, continued

31.3 Liquidity risk, continued

(In thousands of MNT)		2017			
		On demand	**Up to 6 months**	**Total undiscounted financial liabilities**	**Carrying value**
Due to banks	21	71,775,933	38,251,678	110,027,611	109,911,583
Repurchase agreements	22	-	37,000,000	37,000,000	36,940,917
Due to customers	23	254,343	-	254,343	254,343
Other liabilities	24	10,287,878	-	10,287,878	10,287,878
		82,318,154	**75,251,678**	**157,569,832**	**157,394,721**

(In thousands of MNT)		2016			
		On demand	**Up to 6 months**	**Total undiscounted financial liabilities**	**Carrying value**
Due to customers	23	208,974	-	208,974	208,974
Other liabilities	24	193,404	-	193,404	193,404
		402,378	**-**	**402,378**	**402,378**

31.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates or foreign exchange rates.

Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Bank manages and monitors interest rate risk. The immediate impact of variation in interest rate is on the Bank's net interest income, while a long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures will be affected. However, the Bank provides loans which have only fixed rate interest. Because of the fact that the Bank has limited floating interest rate loans interest rate risk is considered immaterial.

Currency risk

Currency risk is the possibility of financial loss to the Bank arising from adverse movements in foreign exchange rates. The Bank's management sets limits on the level of exposure by currencies, which are monitored on a frequent basis.

31. Risk management, continued

31.4 Market risk, continued

The table below summarizes the Bank's exposure to foreign exchange risk at 31 December 2017 and 2016. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

As at 31 December 2017 *(In thousands of MNT)*	**Notes**	**MNT**	**USD**	**Euro**	**Other**	**Total**
Financial assets						
Cash and balances with BOM	13	63,828,634	12,222,060	17,430	15,875,158	91,943,312
Due from banks	14	119	84,454	532	346,245	431,350
Financial investment						
- available-for-sale	15	36,950,057	-	-	-	36,950,057
Loans and advances to customers	16	21,454,851	36,885,923	-	12,142,997	70,483,771
		122,233,661	**49,192,437**	**17,992**	**28,364,400**	**199,808,490**
Financial liabilities						
Due to banks	21	26,005,031	55,900,593	-	28,005,959	109,911,583
Repurchase agreements	22	36,940,917	-	-	-	36,940,917
Due to customers	23	189,904	56,375	7,332	682	254,343
Other liabilities	24	10,254,165	33,713	-	-	10,287,878
		73,390,017	**55,990,681**	**7,382**	**28,006,641**	**157,394,721**
Net position		**48,843,644**	**(6,798,244)**	**10,610**	**357,759**	**42,413,769**

31. Risk management, continued

31.4 Market risk, continued

As at 31 December 2016 *(In thousands of MNT)*	Notes	MNT	USD	Euro	Other	Total
Financial assets						
Cash and balances with BoM	13	149,455	12,650	509	-	162,614
Due from banks	14	34,425	33,850	1,077	-	69,352
Loans and advances to customers	16	7,324,725	-	-	-	7,324,725
Other assets		-	66	-	-	66
		7,508,605	**46,566**	**1,586**	**-**	**7,556,757**
Financial liabilities						
Due to customers	22	139,101	61,226	7,356	1,291	208,974
Other liabilities	24	190,691	770	1,943	-	193,404
		329,792	**61,996**	**9,299**	**1,291**	**402,378**
Net position		**7,178,813**	**(15,430)**	**(7,713)**	**(1,291)**	**7,154,379**

31. Risk management, continued

31.4 Market risk, continued

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income.

Operational risk

Operational risk is the risk of loss arising from systems failure, human errors, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, and lead to financial loss. The Bank cannot expect to eliminate all operational risk, but through a dual control framework, segregation of duties between front-office and back office functions, controlled access to systems, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit, the Bank seeks to manage operational risk.

32. Capital adequacy

The Bank actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Bank of Mongolia.

Capital Management

BOM sets and monitors capital requirements for the banks in Mongolia as a whole.

A minimum capital adequacy ratio was established as 12% as at 31 December 2017 (31 December 2016: 12%), calculated on the basis of total capital and total assets adjusted for their risk, and as 9% as at 31 December 2017 (31 December 2016: 9%), calculated on the basis of total Tier 1 capital and total assets adjusted for their risk.

The ratios of the Bank's capital adequacy as at 31 December were as follows:

(In thousands of MNT)	2017	2016
Tier 1 capital	45,422,642	9,463,529
Tier 2 capital	596	16,378
Total Tier 1 and Tier 2 capital	**45,423,238**	**9,479,907**
Risk weighted assets	87,133,878	8,138,855
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	52.13%	116.48%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	52.13%	116.28%

32. Capital adequacy, continued

The breakdown of risk weighted assets into the various categories of risk weights as at 31 December is as follows:

(In thousands of MNT)

	2017		2016	
%	**Risk Assets**	**Weighted**	**Risk Assets**	**Weighted**
0	121,681,046	-	101,247	-
20	424,848	84,970	34,425	6,885
70	869,108	434,554	-	-
50	10,746,000	7,522,200	5,399,295	3,779,506
100	20,492,597	20,492,597	4,352,464	4,352,464
120	48,832,964	58,599,557	-	-
Total	**203,046,563**	**87,133,878**	**9,887,431**	**8,138,855**

33. Translation into Mongolian language

These financial statements have been prepared in both English and Mongolian. In case of differences between the versions, the report in English will prevail.