MIK HOLDING JSC AND ITS SUBSIDIARIES

(Incorporated in Mongolia)

Audited consolidated financial statements
31 December 2016

MIK HOLDING JSC AND ITS SUBSIDIARIES

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FOR THE YEAR ENDED 31 DECEMBER 2016

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CORPORATE INFORMATION

REGISTERED OFFICE	: Sukhbaatar district, 1st khoroo, Peace avenue-19, 10th floor P.O.Box – 14210 – 215 Ulaanbaatar City, Mongolia
BOARD OF DIRECTORS	: Mr. Munkhbaatar.M (Chairman) Mr. Boldbaatar.D Mr. Sugar.D Mr. Choijiljalbuu.B Mr. Shijir.E Mr. Gantumur.L Mr. Khurelbaatar.G Mr. Bailiikhuu.D
CORPORATE SECRETARY	: Ms. Saruul.G
AUDITORS	: Ernst & Young Mongolia Audit LLC Certified Public Accountants

MIK HOLDING JSC AND ITS SUBSIDIARIES

STATEMENT BY CHAIRMAN AND EXECUTIVES

We, Munkhbaatar Myagmar, being the Chairman of the Board of Directors of MIK Holding JSC, Gantugs Damdin, being the Chief Executive Officer, and Bat-Ulzii Molomjamts, being the Chief Financial Officer, primarily responsible for the financial statements of MIK Holding JSC and its subsidiaries, herein collectively referred to as the "Group", do hereby state that, in our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and its financial performance and cash flows for year then ended in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

MIK HOLDING
МИК ХОЛДИНГ ХК
1116210038 ☎5221978
УЛААНБААТАР ХОТ

Munkhbaatar Myagmar
Chairman of the Board of Directors

Gantugs Damdin
Chief Executive Officer

Bat-Ulzii Molomjamts
Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 2017 .03. 16

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MIK Holding JSC

Opinion

We have audited the consolidated financial statements of MIK Holding JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated 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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matters below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the Shareholders of MIK Holding JSC

Key Audit Matters (cont'd.)

Key audit matters	How our audit addressed the key audit matters
Impairment of purchased mortgage pool receivables	
The impairment of purchased mortgage pool receivables is estimated by the management through the application of judgement and use of highly subjective assumptions. Due to the significance of purchased mortgage pool receivables (representing over 90% of total assets) and the related estimation uncertainty, this is considered a key audit matter. The portfolio of purchased mortgage pool receivables which give rise to the greatest uncertainty are typically those where impairments are derived from collective models. The use of different modelling techniques and assumptions (including the probability of default, loss given default and loss discovery period) could produce significantly different estimates of loan loss provisions. Relevant disclosures are included in notes 2.4, 13 and 25.2 to the financial statements.	Our audit procedures included the assessment of the design and operating effectiveness of the controls over impairment calculations of purchased mortgage pool receivables, and evaluating the methodologies, inputs and assumptions used by the Group in calculating collectively assessed impairment. We compared the Group's assumptions for collective impairment allowances to internal available historical data, externally available industry, financial and economic data, and our own assessments in relation to key inputs. We considered the appropriateness of the Group's revisions to estimates and assumptions and the consistency of judgement applied in the use of economic factors, loss discovery periods and the observation period for historical default rates. We also assessed the adequacy of the related disclosure in the notes to the financial statements.
Withholding tax liability against future divided distribution from the Group's SPCs	
The Group has recorded withholding tax liabilities against future dividend distribution from the Group's Special Purpose Companies ("SPC"s) of MNT'000 8,214,849. Significant management judgement is required in the interpretation of the Mongolian tax legislation, in particular where it does not provide definitive guidance, and also in the determination of the amount of associated withholding tax liability, based upon the likely timing and level of distribution. Relevant disclosures are included in notes 2.4, 8 and 20 to the financial statements.	We have reviewed management's accounting policy in regards of withholding tax liabilities against future dividend distribution from the Group's SPCs. In evaluating management's assessment, we read the key terms and conditions of the SPCs' Articles of Charters, the respective law and Financial Regulatory Commission ("FRC") regulations in respect of SPC and the relevant Mongolian tax law, and made our own assessment on the appropriateness of the management's interpretation of the tax law and regulations. We also employed EY internal tax specialist to assist with our audit in evaluating management's assessment. We also assessed the adequacy of the related disclosure in the notes to the financial statements.

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the Shareholders of MIK Holding JSC

Other information included in the Annual Report

The Directors are responsible for the other information. The other information comprises the other sections of the Annual Report not including the financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this audit report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements that give a true and fair view in accordance with IFRSs, 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 consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the Shareholders of MIK Holding JSC

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd.)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the Shareholders of MIK Holding JSC

Other Matter

This report is made solely to the shareholders of the Group, as a body, in connection with the audit requested by shareholders in accordance with Article 94 of the Company Law of Mongolia and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

PETER MARKEY
Director

Ulaanbaatar, Mongolia
Date: 2017 .03. 16

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 MNT'000	2015 MNT'000 Restated
Interest income	3	192,685,281	125,520,407
Interest expense	4	(113,557,241)	(76,445,274)
Net interest income		79,128,040	49,075,133
Fee and commission expenses	5	(8,493,493)	(5,767,364)
Other operating income	6	149,548	18,873
Total operating income		70,784,095	43,326,642
Credit loss expense	13	(6,271,976)	(3,288,839)
Net operating income		64,512,119	40,037,803
Operating expenses	7	(5,622,382)	(4,610,620)
Profit before tax		58,889,737	35,427,183
Income tax expense	8	(8,151,844)	(5,052,299)
Profit for the year, representing total comprehensive income		50,737,893	30,374,884
Earnings per share (MNT)			
Basic and diluted earnings per share	9	2,530.97	1,744.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	2016 MNT'000	2015 MNT'000 Restated
ASSETS			
Cash and bank balances	10	156,519,377	128,132,221
Financial investments-held to maturity	11	–	2,899,001
Mortgage pool receivables with recourse	12	28,639,946	11,196,817
Purchased mortgage pool receivables	13	2,122,227,156	2,010,062,427
Other assets	14	331,971	188,215
Property and equipment	15	14,689,287	14,782,248
Intangible assets	16	76,621	92,334
TOTAL ASSETS		2,322,484,358	2,167,353,263
LIABILITIES			
Borrowed funds	17	8,552,889	8,866,368
Collateralized bonds	18	2,165,576,045	2,037,542,209
Other liabilities	19	4,001,750	3,688,291
Income tax payable		1,009,039	86,676
Deferred tax liability	20	8,214,763	3,725,216
TOTAL LIABILITIES		2,187,354,486	2,053,908,760
EQUITY			
Ordinary shares	21	20,709,320	20,709,320
Share premium	21	52,225,115	52,225,115
Treasury shares	21	(24,057,436)	–
Retained earnings		86,252,873	40,510,068
TOTAL EQUITY		135,129,872	113,444,503
TOTAL LIABILITIES AND EQUITY		2,322,484,358	2,167,353,263

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Ordinary shares MNT'000	Share premium * MNT'000	Treasury shares MNT'000	Retained earnings ** MNT'000	Total equity MNT'000
1 January 2015		16,798,856	15,724,835	–	13,755,893	46,279,584
Total comprehensive income		–	–	–	30,374,884	30,374,884
Stock dividends declared	21	–	–	–	(3,620,709)	(3,620,709)
Issuance of ordinary shares	21	3,910,464	36,500,280	–	–	40,410,744
At 31 December 2015 and 1 January 2016		20,709,320	52,225,115	–	40,510,068	113,444,503
Total comprehensive income		–	–	–	50,737,893	50,737,893
Repurchase of shares	21		–	(24,057,436)	–	(24,057,436)
Dividends declared	21	–	–	–	(4,995,088)	(4,995,088)
At 31 December 2016		20,709,320	52,225,115	(24,057,436)	86,252,873	135,129,872

* Included in share premium is share issuance cost amounting to MNT 124,670 thousand.

** Included in retained earnings as at 31 December 2016 are restricted retained earnings of MNT 82,147,627 thousand (31 December 2015: MNT 37,252,156 thousand) that are attributable to the Group's SPCs. The restriction relates to the issuance of Residential Mortgage Backed Securities (referred to as "RMBS") (see note 1 below for further details), whereby these retained earnings are restricted from distribution only until the liquidation of respective SPCs in accordance with their Articles of Charter and related FRC regulation.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 MNT'000	2015 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		58,889,737	35,427,183
Adjustments for:			
Unrealised foreign exchange gain		(68,439)	(4,558)
Credit loss on purchased mortgage pool receivables	13	6,271,976	3,288,839
Loss on disposal of property and equipment	7	300	3,160
Depreciation of property and equipment	7	529,069	303,550
Write-off of property and equipment	7	3,149	1,802
Amortisation of intangible assets	7	61,188	58,619
Amortisation of deferred grants	6	(10,824)	(12,058)
Interest accrual on financial investments-held to maturity	3	(100,999)	(321,570)
Operating profit before working capital changes		65,575,157	38,744,967
Changes in operating assets and liabilities:			
Due from banks – placement with original maturities of more than three months		5,753,764	(10,499,376)
Mortgage pool receivables		156,593,466	105,605,825
Other assets		(143,756)	74,169
Collateralized bonds		(164,439,464)	(99,552,448)
Other liabilities		472,428	206,587
Cash generated from operations		63,811,595	34,579,724
Income tax paid		(2,739,934)	(1,363,049)
Net cash flows generated from operating activities		61,071,661	33,216,675
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment		684	1,566
Purchase of property and equipment	15	(588,386)	(342,689)
Purchase of intangible assets	16	(45,475)	(10,560)
Proceeds from financial investments-held to maturity		3,000,000	–
Additions to financial investments-held to maturity		–	(2,577,431)
Net cash flows generated from/(used in) investing activities		2,366,823	(2,929,114)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(4,995,088)	–
Borrowed funds		(313,479)	83,452
Purchase of treasury shares		(24,057,436)	–
Proceeds from issuance of ordinary shares		–	37,152,106
Net cash flows generated from/(used in) financing activities		(29,366,003)	37,235,558
Net increase in cash and cash equivalents		34,072,481	67,523,119
Effect of exchange rate changes on cash and cash equivalents		68,439	4,558
Cash and cash equivalents at 1 January		106,112,793	38,585,116
Cash and cash equivalents at 31 December	10	140,253,713	106,112,793
OPERATIONAL CASH FLOW FROM INTEREST			
Interest received		190,442,934	120,402,791
Interest paid		(111,150,110)	(69,106,499)

1. CORPORATE INFORMATION

Mongolian Mortgage Corporation HFC LLC ("MIK HFC") was incorporated on 04 September 2006 under the Company Law of Mongolia, under the name of "Housing Finance Corporation" and renamed on 6 October 2006 as "Mongolian Mortgage Corporation HFC LLC".

MIK Holding JSC (the "Company") was incorporated on 23 April 2008 under the Company Law of Mongolia and was a wholly owned subsidiary of MIK HFC. The Company was previously known as SPC A LLC and renamed on 30 October 2015. The Company remained dormant since incorporation until the completion of the reorganization, in which the Company became the holding company of the companies now comprising the Group on 14 December 2015 and the principal activity of the Company became investment holding.

The Group's principal place of business and the registered address is Sukhbaatar district, 1st khoroo, Peace Avenue-19, 10th floor, Ulaanbaatar City, Mongolia.

The Group's objective is to develop a secondary market for mortgage loans in Mongolia by acquiring them from the commercial banks and thus providing the banking sector with additional liquidity, which can be used for further growth of mortgage lending. Its principal activities include purchases of mortgage loans issued by Mongolian commercial banks and the issuance of bonds, which are collateralized by the cash flows from the repayment of the mortgage pools.

The registered share capital of MNT 20,709,320 thousand (2015: MNT 20,709,320 thousand) consists of 20,709,320 (2015: 20,709,320) common shares at par value of MNT 1,000 (2015: MNT 1,000) each.

The Company is a joint stock company listed on the Mongolian Stock Exchange, incorporated and domiciled in Mongolia. The shareholders of the Group for the year ended 31 December 2016 are set out in Note 21.

The business activity of issuing asset backed securities became a licensed activity in Mongolia effective from 1 January 2011 in accordance with the Asset Backed Securities Law of Mongolia which was approved on 23 April 2010. On 14 March 2012, MIK HFC was granted, by the FRC, a special license for the issuance of asset backed securities.

In 2013, the Government of Mongolia together with Bank of Mongolia ("BoM") initiated a price stabilization program which included a subsidy scheme for mortgage financing to create a stable environment for mortgage financing. Under the program, the commercial banks in Mongolia have been granted soft loans to fund the issuance of subsidized interest rate mortgage loans or refinance their existing loans with the subsidized interest rate mortgage financing.

On 14 June 2013, MIK HFC, BoM and 14 commercial banks signed an agreement to participate in this government program and on 30 October 2013, the Group established its first SPC, MIK Asset One SPC LLC, a wholly owned subsidiary, to purchase the subsidized interest rate mortgage loans bearing an interest rate of 8% from the commercial banks and in return to issue RMBS, which are collateralized by the cash flows and collaterals of these mortgage pools.

As of 31 December 2016, the Group had established thirteen (13) SPCs (2015: nine (9)) and of which nine (9) of these SPCs have purchased mortgage pools and issued RMBS (2015: seven (7)).

All SPCs are incorporated in Mongolia and the principal activities of the SPCs are mainly restricted to the purchase of mortgage loans, issuance of RMBS and restricted investment activities as governed by the Articles of the Charter of each SPC and relevant FRC regulations.

The consolidated financial statements of the Group were authorized for issue in accordance with the resolution of the Board of Directors on 16 March 2017.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with IFRS as issued by IASB.

The consolidated financial statements of the Group have been prepared on a historical cost basis. The consolidated financial statements are presented in Mongolian Togrog, which is denoted by the symbol MNT, and all values are rounded to the nearest thousands, except when otherwise indicated.

Presentation of financial statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 23.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2. ACCOUNTING POLICIES (CONT'D.)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective as of 1 January 2016:

New and amended standards and interpretations

• Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
• Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
• IFRS 14	*Regulatory Deferral Accounts*
• Amendments to IAS 1	*Disclosure Initiative*
• Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
• Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
• Amendments to IAS 27	*Separate Financial Statements - Equity Method in Separate Financial Statements*
• Annual Improvements (2012-2014 cycle)	*Amendments to a number of IFRSs issued in September 2014*

The adoption of the new and amended standards and interpretations did not have any significant impact on the financial performance or position of the Group.

Standards issued but not yet effective

The Standards and Interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

• Amendments to IAS 7	*Disclosure Initiative* [1]
• Amendments to IAS 12	*Income taxes: Recognition of deferred tax assets for unrealized losses* [1]
• Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions* [2]
• Amendments to IFRS 4	*Financial Instruments with IFRS 4 Insurance Contracts* [2]
• Amendments to IAS 40	*Transfers of investment property* [2]
• Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4]
• IFRS 9	*Financial Instruments* [2]
• IFRS 15	*Revenue from Contracts with Customers* [2]
• IFRS 16	*Leases* [3]
• IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration* [2]
• Annual Improvements (2014-2016 cycle)	*Amendments to a number of IFRSs issued in December 2016* [1,2]

[1] *Effective for annual periods beginning on or after 1 January 2017*
[2] *Effective for annual periods beginning on or after 1 January 2018*
[3] *Effective for annual periods beginning on or after 1 January 2019*
[4] *The effective date of this amendment is postponed indefinitely pending the outcome of IASB's research project on the equity method of accounting*

The Group is in the process of assessing the impact of these Standards and Interpretations upon adoption.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The consolidated financial statements are presented in Mongolian Togrog ("MNT"), which is also the Company's functional currency. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising from settlement or translation of monetary items are taken to the consolidated statement of profit or loss.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

USD/MNT exchange rate as at 31 December 2016 and 31 December 2015 were 2,489.53 and 1,995.98, respectively.

Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group become a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial recognition of financial instruments

Financial instruments are recognised initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except in the case of financial assets and financial liabilities at fair value through profit or loss ("FVPL"), includes transaction cost.

In terms of the IAS 39 classification, the Group's financial assets consist of financial investments classified as held to maturity and loans and receivables and its financial liabilities only consist of loans and borrowings.

(iii) Loans and receivables

The Group's loans and receivables consist mainly of the mortgage pool receivables. The mortgage pool receivables purchased from commercial banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available for sale.
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, mortgage pool receivables are subsequently measured at amortised cost using the effective interest rate ("EIR"), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest income" in profit or loss. The losses arising from impairment are recognised in the profit or loss.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Financial instruments – initial recognition and subsequent measurement (cont'd.)

(iv) Loans and borrowings

The Group's loans and borrowings consist mainly of the issued collateralized bonds and other liabilities. The substance of the contractual agreement of loans and borrowings results in the Group having an obligation either to deliver cash or other financial assets to the holder, or to satisfy the obligation other than by the exchange of fixed amount of cash or other financial assets for a fixed number of own equity shares.

Loans and borrowing are carried at amortised cost using the effective interest method of amortization.

(v) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less any impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in profit or loss. The losses arising from impairment of such investments are recognised in the "Credit loss expense".

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
    - the Group has transferred substantially all the risks and rewards of the asset, or
    - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Derecognition of financial assets and financial liabilities (cont'd.)

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in consolidated statement of profit or loss.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

An analysis of fair values of financial instruments and further details as how they are measured are provided in Note 26.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group 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 Group 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables 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 Group. 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. If written-off loans and receivable are later recovered, the recovery is recognized as income in the consolidated statement of profit or loss and other comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective impairment evaluation, financial assets are grouped on the basis of the Group's credit risk grouping, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

The Group's collective impairment evaluation is computed based on historical loss experience of the each credit risk grouping. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Impairment of financial assets (cont'd.)

(i) Financial assets carried at amortised cost (cont'd.)

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Collateral repossessed

Repossessed assets are initially recognised at the lower of their fair values less costs to sell and the amortised cost of the related outstanding loans on the date of the repossession, and the related loans and advances together with the related impairment allowances are derecognised from the statement of financial position. Subsequently, repossessed assets are measured at the lower of cost and fair value less costs to sell and are included in 'Other assets'.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded in profit or loss. However, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Recognition of income and expenses (cont'd.)

(ii) Fee and commission expenses

Fee expense represents administration and fixed fee commission paid to the commercial banks. Fee expense is recognized when actual service has been provided.

Components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents comprises cash on hand, non-restricted current accounts with banks and amounts due from banks or with an original maturity of three months or less.

Property and equipment

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Assets under construction are not depreciated. Depreciation of other property and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Premises	40 years
Furniture and office equipment	10 years
Computers	3 years
Vehicles	10 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in the consolidated statement of profit or loss and other comprehensive income.

Intangible assets

The Group's other intangible assets include the value of computer software.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Intangible assets (cont'd.)

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful live of three years.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Employee benefits

(i) Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

As required by law, companies in Mongolia make contributions to the government pension scheme, social and health fund. Such contributions are recognised as an expense in profit or loss as incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except for:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

Equity

(i) **Share capital**
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(ii) **Treasure shares**
Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

(iii) **Retained earnings**
Retained earnings represent accumulated profits or losses, reduced by dividend declarations. These may also include prior period adjustments and effects of changes in accounting policies.

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group (after adjusting for interest on the convertible preference shares and interest on the convertible bond, in each case net of tax, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Segment information

The Group is engaged in purchasing of mortgage pools and issuing RMBS securitized by those mortgage pools in Mongolia. Accordingly, the Group considers that it only has a single reportable segment from both business and geographic perspectives and therefore only provides relevant entity-wide information.

2. ACCOUNTING POLICIES (CONT'D.)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Transactions with related parties

A related party is a person or entity that is related to the Group:

(a) A person or a close member of that person's family is related to a Group if that person:
- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) An entity is related to a Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

All material transactions and balances with the related parties are disclosed in the relevant notes to consolidated financial statements and the detail is presented in Note 24.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Moreover, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Depreciation of property and equipment /amortization of intangible assets

Property and equipment are depreciated and intangible assets are amortised on straight-line basis over their estimated useful lives. Management estimates the useful lives of property and equipment and intangible assets to be within 3 to 40 years. These are common life expectancies applied in the industry in which the Group operates. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, which would lead to revision of charges in the future.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D.)

Impairment losses on loans and receivables

The Group reviews its individually significant loans and receivables at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and receivables is recorded in the consolidated statement of profit or loss and disclosed in more detail in Notes 12 and 13.

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 8 to the financial statements.

Significant management judgement is also required to determine the amount of withholding tax liability associated with the future dividend distribution of the Group's SPCs, based upon the likely timing and level of retained earnings.

3. INTEREST INCOME AND SEGMENT INFORMATION

During the year ended 31 December 2016 and 2015, the Group was engaged in a single business segment, which is the purchasing of mortgage pools and issuing RMBS securitized by those mortgage pools in Mongolia. There has been no single external customer that has contributed revenue exceeding 10% or more of the Group's revenue during the year ended 31 December 2016 and 2015.

	2016 MNT'000	2015 MNT'000
Purchased mortgage pool receivables (without recourse)	173,782,019	116,930,678
Bank balances	16,004,341	6,723,647
Mortgage pool receivables with recourse	2,797,922	1,544,512
Government treasury bill	100,999	321,570
	192,685,281	125,520,407

4. INTEREST EXPENSE

	2016 MNT'000	2015 MNT'000
Collateralized bonds	113,533,090	75,993,106
Borrowed funds	24,151	452,168
	113,557,241	76,445,274

5. FEE AND COMMISSION EXPENSES

	2016 MNT'000	2015 MNT'000
Loan service fees	8,489,748	5,764,594
Bank service charges	3,745	2,770
	8,493,493	5,767,364

6. OTHER OPERATING INCOME

	2016 MNT'000	2015 MNT'000
Foreign exchange gain, net	69,954	4,558
Other income	68,770	2,257
Grant income (Note 19)	10,824	12,058
	149,548	18,873

7. OPERATING EXPENSES

	2016 MNT'000	2015 MNT'000
Personnel expenses*	2,737,063	2,340,084
Others	1,415,093	830,119
Professional service fee	876,520	1,073,286
Depreciation expense (Note 15)	529,069	303,550
Amortisation of intangible assets (Note 16)	61,188	58,619
Write-off of property and equipment (Note 15)	3,149	1,802
Loss on disposal of property and equipment	300	3,160
	5,622,382	4,610,620

*** Personnel expenses**		
Salaries, wages and bonus	2,402,332	2,078,037
Contribution to social and health fund	295,488	209,470
Staff training	39,243	52,577
	2,737,063	2,340,084

8. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2016 and 2015 are:

	2016 MNT'000	2015 MNT'000
Current tax		
Current income tax	3,662,297	1,327,083
Deferred tax		
Relating to origination of temporary differences	4,489,547	3,725,216
	8,151,844	5,052,299

The Group provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Group are 10% (2015: 10%) for the first MNT3 billion (2015: MNT 3 billion) of taxable income, and 25% (2015: 25%) on the excess of taxable income over MNT 3 billion (2015: MNT 3 billion).

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group for the years ended 31 December are as follows:

	2016 MNT'000	2015 MNT'000
Profit before tax	58,889,737	35,427,183
Tax at statutory tax rate of 25% (2015: 25%)	14,722,434	8,856,796
Effect of principal repayment of collateralized bonds as tax deductible	(41,742,375)	(26,729,275)
Effect of expenses not deductible for tax purposes	1,643,776	880,108
Effect of income subject to lower tax rate	(951,362)	(97,792)
Effect of income not subject to tax	(25,250)	(80,393)
Deferred tax asset not recognized for tax losses	26,985,714	17,235,751
Deferred tax liability recognized for withholding tax on future dividend	4,489,547	3,725,216
Others	3,029,360	1,261,888
Tax expense for the year	8,151,844	5,052,299

The Group has tax losses of MNT'000 116,333,429 (2015: MNT'000 75,954,935) that are available to offset against future taxable profits for the next two financial years. The annual amount of tax loss deductible from taxable income is limited to 50% of the taxable income in a given year. The Group's tax losses are mainly arising from the SPCs.

As per Mongolian Corporate Income Taxation Law, the principal repayment of asset backed bonds issued by a licensed company (in the Group's case, the collateralised bonds issued) is deductible for tax purpose. As a result, it is uncertain whether the SPCs will generate future taxable profits.

Deferred tax assets arising from tax losses are not recognized as the Group is uncertain whether there would be sufficient taxable profit in the next two years available against which the tax losses carried forward can be utilized.

The effective income tax rate for the Group for the year ended 31 December 2016 is 13.84% (2015: 14.26%).

9. EARNINGS PER SHARE

The following table shows the income and share data used in the basic and diluted earnings per share calculations:

	2016 MNT'000	2015 MNT'000
Profit for the year and total comprehensive income for the year (net of tax) attributable to equity holder of the Group	50,737,893	30,374,884
Weighted average number of ordinary shares for basic and diluted earnings per share*	20,046,815	17,413,567
Earnings per share		
	MNT	MNT
Equity holders of the Group for the year:		
Basic and diluted earnings per share	2,530.97	1,744.32

* The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

10. CASH AND BANK BALANCES

	2016 MNT'000	2015 MNT'000
Cash on hand	3,377	1,047
Current accounts with banks	6,039,073	22,729,578
Collection accounts with banks	7,487,625	7,310,695
Trust accounts with banks	17,051,421	12,254,455
Term deposits	125,937,881	85,836,446
	156,516,000	128,131,174
	156,519,377	128,132,221

All bank accounts are placed in commercial banks operating in Mongolia, and most of these commercial banks are shareholders of the Group. The trust accounts with banks represent current accounts where the collections made by commercial banks on behalf of the Group on the purchased mortgage pool receivables are accumulated and are deposited into the current accounts on monthly basis. The collection account is used for repayment of the RMBS. The carrying amount of cash and cash equivalents approximates fair value.

Certain cash at banks of MNT 82,147,627 thousand (31 December 2015: MNT 37,252,156 thousand) held by the SPCs is restricted from dividend distribution, but not restricted from use for their principal activities as governed by the SPC Articles of Charters.

The Group earns interest income at a rate of 12% to 17.95% (2015: 9.0% to 16.6%) per annum on term deposits.

10. CASH AND BANK BALANCES (CONT'D.)

ADDITIONAL CASH FLOW INFORMATION

	2016 MNT'000	2015 MNT'000
Cash and bank balances	156,519,377	128,132,221
Less: Placement with banks with original maturities of more than three months	(16,265,664)	(22,019,428)
Total cash and cash equivalents for the consolidated statement of cash flow	140,253,713	106,112,793

11. FINANCIAL INVESTMENTS-HELD TO MATURITY

	2016 MNT'000	2015 MNT'000
Held-to-maturity:		
Government treasury bills	–	2,899,001

Government treasury bills are interest bearing short term bills, acquired at a discount.

12. MORTGAGE POOL RECEIVABLES WITH RECOURSE

The Group acquires mortgage pool receivables with recourse from commercial banks, most of whom are shareholders of the Group, through the process similar to the acquisition of mortgage pool receivables without recourse (Note 13). However, in the case of mortgage pool receivables with recourse, the Group has the right to request from the respective commercial bank, when any individual mortgage loan is overdue more than 90 days, either to replace the defaulted loan with another performing mortgage loan with similar terms or to pay immediately in cash an amount equal to the carrying amount of the defaulted loan plus accumulated interest. Thus, mortgage pool receivables with recourse represent, in substance, loans issued to commercial banks in Mongolia, which are collateralized by related mortgage loan receivables of those commercial banks, as well as by the related residential properties that are used as collateral, as additional guarantee.

The Group applies the similar procedure for assessment of individual mortgage loans, as in the case of mortgage pool receivables without recourse (Note 13). The Group performs credit quality analysis of the individual mortgage loans on each mortgage pool acquired. The Group also assesses the financial condition of the banks, as well as their general reputation in the Mongolian market.

	2016 MNT'000	2015 MNT'000
Mortgage pool receivables	28,625,648	11,192,061
Accrued interest receivables	14,298	4,756
	28,639,946	11,196,817

Past due but not impaired loan receivables are expected to be either fully paid by the respective commercial bank or replaced with another performing mortgage loan, if related loans become overdue more than 90 days. The ageing analysis of mortgage pool receivables is set out in Note 25.2.

12. MORTGAGE POOL RECEIVABLES WITH RECOURSE (CONT'D.)

In accordance with the Group's credit risk procedures, the ratio between the carrying amount of purchased loan and the fair value of collateral (apartment or other residential property) at the time of purchase of mortgage pools should not be greater than 70%. Collateral is analysed by the Group on an individual loan basis prior to inclusion of related loan in the acquired mortgage pool. In addition, the Group has first claim rights over all residential properties used as collateral (i.e. priority rights before other creditors).

13. PURCHASED MORTGAGE POOL RECEIVABLES

	2016 MNT'000	2015 MNT'000
Purchased mortgage pool receivables	2,123,071,639	2,006,174,052
Accrued interest receivables	9,188,902	7,650,633
Total gross purchased mortgage pool receivables	2,132,260,541	2,013,824,685
Allowance for impairment losses	(10,033,385)	(3,762,258)
Net purchased mortgage pool receivables	2,122,227,156	2,010,062,427

Purchased mortgage pool receivables represent mortgage loan receivables due from individual borrowers, purchased from Mongolian commercial banks, most of whom are shareholders of the Group. All significant risks and rewards related to these mortgage loans, including the rights to the related collateral, are fully transferred to the Group at acquisition of the mortgage pools.

For the purchase of these mortgage pool receivables, the Group follows credit risk procedures similar to the mortgage pool receivables with recourse (See Note 12). The Group performs credit quality analysis of the individual mortgage loans on each mortgage pool acquired. For credit risk policies and disclosures, please refer to Note 25.2.

Impairment allowance for purchased mortgage pool receivables

Allowance for impairment losses are fully related to collectively impaired loans as the management assessed that none of the loans were individually impaired.

A reconciliation of the allowance for impairment losses for purchased mortgage pool receivables is as follows:

	2016 MNT'000	2015 MNT'000
At 1 January	3,762,258	473,419
Net charge for the year	6,271,976	3,288,839
Write-off	(849)	–
At 31 December	10,033,385	3,762,258

14. OTHER ASSETS

	2016 MNT'000	2015 MNT'000
Prepayments	168,654	101,749
Foreclosed property	109,859	–
Consumables and office supplies	13,155	16,147
Other receivables	44,483	74,499
	336,151	192,395
Less: Impairment allowance on other receivables	(4,180)	(4,180)
	331,971	188,215

15. PROPERTY AND EQUIPMENT

At 31 December 2016	Premises MNT'000	Furniture and office equipment MNT'000	Computers MNT'000	Vehicle MNT'000	Deposit for premises MNT'000	Total MNT'000
At cost						
At 1 January 2016	14,405,227	294,599	280,007	105,001	176,446	15,261,280
Additions	26,000	15,325	81,260	465,801	–	588,386
Write-off (Note 7)	–	(13,317)	(1,304)	–	–	(14,621)
Disposal	–	(3,294)	(2,319)	–	–	(5,613)
Reclassification	27,367	934	–	–	(28,301)	–
Transfer	–	–	–	–	(148,145)	(148,145)
At 31 December 2016	14,458,594	294,247	357,644	570,802	–	15,681,287
Accumulated depreciation						
At 1 January 2016	279,499	46,696	126,657	26,180	–	479,032
Charge for the year (Note 7)	362,056	29,714	92,318	44,981	–	529,069
Write-off (Note 7)	–	(10,168)	(1,304)	–	–	(11,472)
Disposal	–	(2,310)	(2,319)	–	–	(4,629)
At 31 December 2016	641,555	63,932	215,352	71,161	–	992,000
Net carrying amount	13,817,039	230,315	142,292	499,641	–	14,689,287

15. PROPERTY AND EQUIPMENT (CONT'D.)

At 31 December 2015	Premises	Furniture and office equipment	Computers	Vehicle	Deposit for premises	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At cost						
At 1 January 2015	478,433	97,067	155,002	105,001	14,103,240	14,938,743
Additions	–	214,140	128,549	–	–	342,689
Write-off (Note 7)	–	(3,293)	(3,544)	–	–	(6,837)
Disposal	–	(13,315)	–	–	–	(13,315)
Reclassification	13,926,794	–	–	–	(13,926,794)	–
At 31 December 2015	14,405,227	294,599	280,007	105,001	176,446	15,261,280
Accumulated depreciation						
At 1 January 2015	64,359	39,150	69,917	15,680	–	189,106
Charge for the year (Note 7)	215,140	17,783	60,127	10,500	–	303,550
Write-off (Note 7)	–	(1,648)	(3,387)	–	–	(5,035)
Disposal	–	(8,589)	–	–	–	(8,589)
At 31 December 2015	279,499	46,696	126,657	26,180	–	479,032
Net carrying amount	14,125,728	247,903	153,350	78,821	176,446	14,782,248

16. INTANGIBLE ASSETS

	Computer software 2016	2015
	MNT'000	MNT'000
At cost		
At 1 January	194,448	189,677
Additions	45,475	10,560
Write-off	–	(5,789)
Total	239,923	194,448
Accumulated amortization		
At 1 January	102,114	49,284
Charge for the year (Note 7)	61,188	58,619
Write-off	–	(5,789)
Total	163,302	102,114
Net carrying amount	76,621	92,334

17. BORROWED FUNDS

A sub-lending agreement between the Ministry of Finance and the Group was made on 3 January 2011. The Group has fully drawn the full amount of the loan in 2012.

During the year ended 31 December 2016, the borrowing from the Ministry of Finance bears nominal interest rate of 4% (2015: ranging from 7.42% to 9.41%). The interest on the borrowing is payable on 30 May and 30 November of each year, while the principal is payable in 2020.

The borrowing is not collateralized.

18. COLLATERALIZED BONDS

	Interest rate	2016 MNT'000	2015 MNT'000
Senior bond	4.5%	1,915,826,604	1,817,781,811
Junior bond	10.5%	249,749,441	219,760,398
		2,165,576,045	2,037,542,209

The senior and junior bonds as at 31 December 2016 and 31 December 2015 represent bonds issued by MIK Asset One SPC LLC, MIK Asset Two SPC LLC, MIK Asset Three SPC LLC, MIK Asset Four SPC LLC, MIK Asset Five SPC LLC, MIK Asset Six SPC LLC, MIK Asset Seven SPC LLC, MIK Asset Eight SPC LLC, and MIK Asset Nine SPC LLC to BoM and commercial banks on 23 December 2013, 30 June 2014, 31 October 2014, 21 January 2015, 29 May 2015, 10 August 2015, 30 November 2015, 5 February 2016 and 22 April 2016 respectively under the RMBS program of the government of Mongolia. The bonds are collateralized by purchased mortgage pool receivables (see Note 13). The interest on the junior bonds and the senior bonds are 10.5% and 4.5% per annum respectively and are payable on a quarterly basis. The principal payments of the senior bonds are payable on a quarterly basis and are equal to the quarterly principal repayment received from the purchased mortgage pool receivables acquired under the RMBS program. The principal of the junior bonds will only be redeemed after the full redemption of the principal of the senior bonds and the payments to junior bond holders are subordinate in right of payment and priority to the senior bonds. Commercial banks are to use the senior bonds to repay their loans from BoM.

The bonds are not publicly traded on an active market (such as the stock exchange), but are sold directly to commercial banks. The Group did not have any defaults of principal, interest or other breaches with respect to the collateralized bonds during 2016 and 2015.

The gross amount of purchased mortgage pool receivables used as collateral for the total collateralized bonds as of 31 December 2016 is MNT'000 2,132,260,541 (2015: MNT'000 2,013,824,685) (See Note 13).

19. OTHER LIABILITIES

	2016 MNT'000	2015 MNT'000
Deferred grant	78,485	89,309
Other payables	3,923,265	3,598,982
	4,001,750	3,688,291

Included in other payables are loan service fee payables to the banks for the collection of the purchased mortgage pool receivables.

Loan service fees are normally settled to the banks with the next quarterly coupon payment of the RMBS (See Note 24).

Movements in deferred grants are presented as follows:

	2016 MNT'000	2015 MNT'000
Balance at beginning of year	89,309	101,367
Recognised in profit or loss (Note 6)	(10,824)	(12,058)
	78,485	89,309

20. DEFERRED TAX LIABILITY

	2016 MNT'000	2015 MNT'000
At 1 January	3,725,216	–
Recognised in statement of comprehensive income (Note 8)	4,489,547	3,725,216
At 31 December	8,214,763	3,725,216

Deferred tax liability represents future withholding tax liabilities against the future dividend distribution of the SPCs upon liquidation.

21. ORDINARY SHARES

The Company is a joint stock company established under the Company Law of Mongolia and listed on Mongolian Stock Exchange on 24 December 2015. The total authorized share capital of the Company represents 30,000,000 ordinary shares (2015: 30,000,000) with nominal value of MNT 1,000 per share.

There were 2,066,790 shares held as treasury shares as at 31 December 2016 (2015: nil). By excluding these shares, the total number of issued shares as at 31 December 2016 was 18,642,530 shares (2015: 20,709,320 shares). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

The movement in number of shares and amount of share capital during the years ended 31 December 2016 and 31 December 2015 are as follows:

	Number of outstanding shares of MNT 1,000 each	Ordinary shares MNT'000	Share premium MNT'000
At 1 January 2015	16,798,856	16,798,856	15,724,835
Issued during the year	3,106,398	3,106,398	34,045,708
Stock dividends	804,066	804,066	2,454,572
At 31 December 2015, 1 January 2016 and 31 December 2016	20,709,320	20,709,320	52,225,115

On 23 April 2015, the Group declared 804,066 stock dividends to shareholders in accordance to their percentage of ownership. The fair value of the additional shares issued was estimated to be MNT 4,503 per share. This stock dividend resulted in an increase in share premium by MNT 2,454,572 thousand.

As a part of the initial public offering, the Group issued an additional 3,106,398 new shares on the Mongolian Stock Exchange at a subscription price of MNT 12,000 per share, resulting in total cash proceeds of MNT 37,276,776 thousand. Share premium was thereby increased by MNT 34,045,708 thousand net of capitalized expenditure of MNT 124,670 thousand.

On 18 March 2016, the Group declared cash dividends to its shareholders at MNT 241.2 per share amounting to MNT 4,995,088 thousand.

The Group repurchased 2,066,790 shares in total from Trade and Development Bank LLC and Ulaanbaatar City Bank LLC at MNT 11,640 per share under the share sell and purchase agreements dated 05 September 2016 amounting to MNT 24,057,436 thousand. (Note 24)

21. ORDINARY SHARES (CONT'D.)

The shareholders of the Group as of 31 December 2016 and 31 December 2015 and percentages of ownership are as follows:

	2016	2015
Ulaanbaatar City Bank LLC	25.46%	28.66%
Trade and Development Bank of Mongolia LLC	20.66%	25.64%
Capital Bank LLC	8.12%	8.12%
TDB Capital LLC	7.50%	7.53%
Golomt Bank LLC	5.57%	5.57%
Khan Bank LLC	1.02%	1.02%
XacBank LLC	1.02%	1.02%
Capitron Bank LLC	1.02%	1.02%
Chinggis Khaan Bank LLC	0.30%	0.30%
Others	0.05%	0.03%
United Securities LLC	–	1.79%
Total private sector share	70.72%	80.70%
Development Bank of Mongolia	14.88%	14.88%
Bank of Mongolia	2.03%	2.03%
State Bank LLC	2.39%	2.39%
Total state share:	19.30%	19.30%
Treasury shares	9.98%	–
Total	100.00%	100.00%

Financial and operating policy decisions, including strategic decisions, are made at the meetings of the Board of Directors ("BOD"). The members of the BOD are appointed at the Shareholders' Meeting. As of 31 December 2016, each shareholder that has more than 1% of total shares of the Group, has the ability to nominate one member to the BOD, which consists of 5 representatives of the commercial banks and state owned banks. In addition, all bank shareholders have material transactions with the Group during 2016 and participated in the policy making procedures.

22. CONTINGENT LIABILITIES AND COMMITMENTS

Legal claims

Litigation is a common occurrence in the financial services industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages can be reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing. At the year end, the Group had no significant outstanding litigation.

Tax legislation

Mongolian tax 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 Group 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 that transactions and activities that have not been challenged in the past may be challenged by 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.

Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax and other areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Management performs regular re-assessment of tax risks and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

Assets pledged and restricted

Bonds issued by the Group are fully collateralised by the purchased mortgage pool receivables. As of 31 December 2016, the Group had mortgage pool receivables with the gross amount of MNT'000 2,132,260,541 (2015: MNT'000 2,013,824,685) pledged as collateral for the bonds. The related liabilities amount is MNT'000 2,165,576,045 as of 31 December 2016 (2015: MNT'000 2,037,542,209). (See Notes 13 and 18.)

23. 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 25.3 'Liquidity risk' for the Group's contractual undiscounted repayment obligations.

	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
At 31 December 2016			
Financial assets			
Cash and bank balances	156,519,377	–	156,519,377
Mortgage pool receivables with recourse	3,040,474	25,599,472	28,639,946
Purchased mortgage pool receivables	123,740,781	1,998,486,375	2,122,227,156
Other assets	40,303	–	40,303
	283,340,935	2,024,085,847	2,307,426,782
Non-financial assets			
Property and equipment	–	14,689,287	14,689,287
Intangible assets	–	76,621	76,621
Other assets	291,668	–	291,668
	291,668	14,765,908	15,057,576
Total	283,632,603	2,038,851,755	2,322,484,358
Financial liabilities			
Borrowed funds	112,117	8,440,772	8,552,889
Collateralized bonds	139,021,425	2,026,554,620	2,165,576,045
Other liabilities	3,921,197	–	3,921,197
	143,054,739	2,034,995,392	2,178,050,131
Non-financial liabilities			
Other liabilities	80,553	–	80,553
Income tax payable	1,009,039	–	1,009,039
Deferred tax liability	–	8,214,763	8,214,763
	1,089,592	8,214,763	9,304,355
Total	144,144,331	2,043,210,241	2,187,354,486
Net	139,488,272	(4,358,486)	135,129,872

23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONT'D.)

	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
At 31 December 2015			
Financial assets			
Cash and bank balances	128,132,221	–	128,132,221
Financial investment-held to maturity	2,899,001	–	2,899,001
Mortgage pool receivables with recourse	915,054	10,281,763	11,196,817
Purchased mortgage pool receivables	108,489,660	1,901,572,767	2,010,062,427
Other assets	70,319	–	70,319
	240,506,255	1,911,854,530	2,152,360,785
Non-financial assets			
Property and equipment	–	14,782,248	14,782,248
Intangible assets	–	92,334	92,334
Other assets	117,896	–	117,896
	117,896	14,874,582	14,992,478
Total	240,624,151	1,926,729,112	2,167,353,263
Financial liabilities			
Borrowed funds	425,596	8,440,772	8,866,368
Collateralized bonds	114,084,693	1,923,457,516	2,037,542,209
Other liabilities	3,489,583	–	3,489,583
	117,999,872	1,931,898,288	2,049,898,160
Non-financial liabilities			
Other liabilities	198,708	–	198,708
Income tax payable	86,676	–	86,676
Deferred tax liability	–	3,725,216	3,725,216
	285,384	3,725,216	4,010,600
Total	118,285,256	1,935,623,504	2,053,908,760
Net	122,338,895	(8,894,392)	113,444,503

24. RELATED PARTY DISCLOSURES

A number of the Group's transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

As all shareholders have the right to appoint a director, management considers them to be related parties.

As at 31 December 2016, the Group has the following balances and transactions with related parties:

As at 31 December 2016	Bank Deposits		Collateralized Bonds			
	Outstanding balances MNT'000	Interest income MNT'000	Issued during the year senior bonds MNT'000	Issued during the year junior bonds MNT'000	Outstanding balance MNT'000	Interest expense MNT'000
Trade and Development Bank LLC	45,143,653	4,763,627	54,938,700	6,104,400	58,666,199	5,983,486
Golomt Bank LLC	19,436,123	1,603,575	49,245,700	5,471,800	69,607,543	7,119,131
Ulaanbaatar City Bank LLC	50,652,933	4,947,563	14,778,700	1,642,000	9,132,415	914,333
Chinggis Khaan Bank LLC	56,989	680	2,222,300	246,900	670,752	61,884
Capital Bank LLC	1,109,302	76,019	9,063,400	1,007,000	7,468,874	751,873
State Bank LLC	14,113,755	1,291,850	20,434,000	2,270,400	19,386,812	1,973,761
Xac Bank LLC	19,674,524	1,694,398	36,735,400	4,081,700	22,936,079	2,322,577
Khan Bank LLC	5,850,242	1,622,071	73,376,000	8,152,800	58,905,200	6,000,636
Capitron Bank LLC	140,169	2,246	596,200	66,200	1,170,642	119,628
Total	156,177,690	16,002,029	261,390,400	29,043,200	247,944,516	25,247,309
Bank of Mongolia	–	–	–	–	1,915,826,604	88,101,415
Total	156,177,690	16,002,029	261,390,400	29,043,200	2,163,771,120	113,348,724

24. RELATED PARTY DISCLOSURES (CONT'D.)

As at 31 December 2016

Mortgage pool portfolio

	Purchase of mortgage pool		Outstanding balance*		Interest income from mortgage pool*		
	with recourse	without recourse**	with recourse	without recourse	with recourse	without recourse	Loan service fee
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Trade and Development Bank	613,153	61,043,170	502,111	490,597,559	32,625	40,012,514	2,028,318
Golomt Bank LLC	6,165,108	54,717,570	5,414,538	602,746,000	332,547	49,277,362	2,430,799
Ulaanbaatar City Bank	3,165,449	16,420,807	3,279,941	78,338,790	380,962	6,347,092	350,548
Chinggis Khaan Bank	672,872	2,469,300	658,848	6,069,305	20,737	437,329	16,853
Capital Bank LLC	4,238,061	10,070,577	5,551,294	66,358,420	422,100	5,264,214	228,191
State Bank LLC	5,602,291	22,704,525	7,200,930	163,170,720	793,382	13,653,498	636,113
Xac Bank LLC	–	40,817,218	3,816,161	199,039,015	648,514	16,091,998	764,062
Khan Bank LLC	–	81,528,951	20,279	501,420,755	6,100	40,697,002	1,939,726
Capitron Bank LLC	1,795,735	662,469	1,649,909	9,604,950	138,364	790,412	38,484
Total	22,252,669	290,434,587	28,094,011	2,117,345,514	2,775,331	172,571,421	8,433,094

* Outstanding balance/interest income from mortgage pool with/without recourse represents the principal/interest income from individual borrowers that are passed through to the Group via the commercial banks.

** Difference between issuance of RMBS (senior and junior) and the purchased mortgage pool (without recourse) is the cash payment of the Group to the respective commercial banks amounting to MNT 987 thousand.

24. RELATED PARTY DISCLOSURES (CONT'D.)

Related party transactions as of 31 December 2015:

As at 31 December 2015	Bank Deposits		Collateralized Bonds			
	Outstanding balances	Interest income	Issued during the year senior bonds	Issued during the year junior bonds	Outstanding balance	Interest expense
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Trade and Development Bank LLC	43,375,774	1,462,053	210,956,700	23,439,600	52,400,618	3,735,067
Golomt Bank LLC	12,756,152	934,155	437,832,600	48,648,100	63,970,351	4,458,092
Ulaanbaatar City Bank LLC	24,231,435	1,708,377	39,969,000	4,441,000	7,452,558	844,092
Chinggis Khaan Bank LLC	23,222	555	10,143,300	–	418,570	43,693
Capital Bank LLC	1,817,011	78,836	29,715,000	3,301,500	6,436,499	468,996
State Bank LLC	6,063,509	826,492	95,689,700	10,632,200	17,059,242	1,372,846
Xac Bank LLC	7,912,519	668,294	95,234,600	11,708,600	18,765,240	1,488,051
Khan Bank LLC	31,747,149	1,040,687	248,042,400	27,560,200	50,559,229	3,764,524
Capitron Bank LLC	101,974	2,096	392,200	43,500	1,102,165	114,101
Total	128,028,745	6,721,545	1,167,975,500	129,774,700	218,164,472	16,289,462
Bank of Mongolia	–	–	–	–	1,817,781,811	59,563,680
Total	128,028,745	6,721,545	1,167,975,500	129,774,700	2,035,946,283	75,853,142

24. RELATED PARTY DISCLOSURES (CONT'D.)

Related party transaction as of 31 December 2015 are as follows:

As at 31 December 2015

Mortgage pool portfolio

	Purchase of mortgage pool		Outstanding balance		Interest income from mortgage pool*		
	with recourse	without recourse**	with recourse	without recourse	with recourse	without recourse	Loan service fee
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Trade and Development Bank	–	234,396,501	–	470,904,521	–	28,913,582	1,504,399
Golomt Bank LLC	–	486,480,870	–	596,121,954	–	32,373,581	1,555,988
Ulaanbaatar City Bank	262,643	44,410,221	903,098	69,157,385	98,825	3,373,298	181,029
Chinggis Khaan Bank	–	–	–	3,822,289	–	316,244	13,887
Capital Bank LLC	2,025,954	33,016,720	1,971,460	59,828,399	79,554	3,378,931	157,349
State Bank LLC	–	106,322,140	3,224,646	158,663,321	530,406	9,217,708	432,633
Xac Bank LLC	5,841,604	117,086,713	5,010,167	172,112,838	768,684	11,276,776	543,011
Khan Bank LLC	–	275,602,864	49,234	459,680,184	8,187	26,309,448	1,279,808
Capitron Bank LLC	1,466,987	435,799	38,212	9,580,215	55,243	810,168	42,762
Total	9,597,188	1,297,751,828	11,196,817	1,999,871,106	1,540,899	115,969,736	5,710,866

* Interest income from mortgage pool with/without recourse represents the interest income from individual borrows that are passed through to the Group via the commercial banks.

** Difference between issuance of RMBS (senior and junior) and the purchased mortgage pool (without recourse) is the cash payment of the Group to the respective commercial banks amounting to MNT 1,628 thousand.

24. RELATED PARTY DISCLOSURES (CONT'D.)

Other payables

Other payables include loan service fee payable to the banks for the collection of the purchased mortgage pool receivables as follows.

	2016 MNT'000	2015 MNT'000
Trade and Development Bank LLC	792,711	623,597
Golomt Bank LLC	976,197	796,222
Ulaanbaatar City Bank LLC	148,279	87,628
Chinggis Khaan Bank LLC	8,773	6,496
Capital Bank LLC	90,950	73,604
State Bank LLC	257,600	200,303
Xac Bank LLC	318,935	271,930
Khan Bank LLC	737,314	530,702
Capitron Bank LLC	14,779	16,604
Total	3,345,538	2,607,086

Loan service fees are normally settled with the banks with the next quarterly coupon payment of the RMBS.

Repurchase of shares

The Group repurchased 1,033,395 and 1,033,395 shares from Trade and Development Bank LLC and Ulaanbaatar City Bank LLC, shareholders of the Group, at MNT 11,640 per share under the share sell and purchase agreements dated 5 September 2016 amounting to MNT 12,028,718 thousand and MNT 12,028,718 thousand, respectively (See Note 21).

Compensation to key management personnel

	2016 MNT'000	2015 MNT'000
Compensation to key management personnel as follows:		
Short-term employees benefits		
- Salaries, incentives and allowances	512,110	530,195
- Contribution to social and health fund	55,627	35,707
	567,737	565,902

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of the Group's business. The interest charged to and by related parties are at normal commercial rates in relation to bank deposits and mortgage pools and at the rates specified in the RMBS. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016 and 31 December 2015, the Group has no provision for doubtful debts against the amounts due from related parties.

25. RISK MANAGEMENT

25.1 Introduction

The Group's business activities expose it to the following major categories of financial risk:

- Credit risk. Credit risk is the potential for financial loss resulting from the failure of a borrower or institutional counterparty to honor its financial or contractual obligations, resulting in a potential loss of earnings or cash flows.
- Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its funding obligations in a timely manner.
- Market risk. Market risk is the exposure generated by adverse changes in the value of the Group's financial assets caused by a change in interest rates or foreign exchange rates.
- Operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, corporate governance, or from external events.

The Group seeks to manage those risks by using an established risk management framework that continues to evolve as the Group grows and expands its business. This risk management framework is intended to provide the basis of the principles that govern the Group's risk management activities.

Risk management structure

The Company has its dedicated BOD appointed by its shareholders. The BOD is responsible for the oversight of asset management and execution of responsibility through the board committee system, which includes the following standing committees: the Risk Committee ("RC"), the Finance and Audit Committee ("FAC"), and the Operations and Legal Committee ("OLC").

The RC oversees general risk–related policies, including review of the Group–level risk policies and limits, performance against these policies and limits, and the sufficiency of risk management capabilities. In addition to overseeing liquidity risk and market risk in association with the RC, the FAC reviews the Group's system of internal controls, and approves purchases of pools of mortgage loan receivables. The OLC oversees operational risk and legal compliance.

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

25.2 Credit risk

The Group's credit risk exists primarily from the pools of mortgage loan receivables that it has purchased. In regards to mortgage loan receivables, the credit risk is the risk of not receiving principal or interest on a timely basis due to the borrowers not making payments on time.

The procedures include thorough due diligence to ensure that the commercial banks comply with the quality standards based on those established by the BoM and the use of an assessment model that utilises both qualitative and quantitative measurements related to the overall quality of mortgage loans to be purchased.

25. RISK MANAGEMENT (CONT'D.)

25.2 Credit risk

The Group also has developed eligibility criteria for the loan receivables that they can acquire. The criterias are set for the borrower, loan, collateral asset and loan documents based on Mongolian Law and the requirements set by BoM. The loan files for every loan receivable to be purchased are checked for completeness for each borrower, and management has procedures and policy in place to ensure that the eligibility criteria are met.

After the pool of loan receivables are purchased, the Group receives daily settlement reports and reconciles the information, on a monthly basis. A consolidated quality report is obtained from the loan origination banks. These reports are used to closely monitor the performance of the loan origination banks in collecting loan payments on behalf of the Group. In addition, follow ups are made with the loan origination banks on any loans with slow repayment history. The policies and procedures for selecting loan receivables for purchase have been approved and are monitored by the RC.

Maximum exposure to credit risk without taking account of any 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.

	Gross maximum exposure	
	2016	**2015**
	MNT'000	**MNT'000**
Bank balances	156,516,000	128,131,174
Financial investments-held to maturity	–	2,899,001
Mortgage pool receivables with recourse	28,639,946	11,196,817
Purchased mortgage pool receivables	2,132,260,541	2,013,824,685
Other assets	44,483	74,499
Total credit risk exposure	2,317,460,970	2,156,126,176

Collateral and other credit enhancements

Purchased mortgage pool receivables are collateralized by residential properties pledged under the mortgage loan agreements between the originating financial institutions and the individual mortgage loan borrowers.

Balances with banks and other receivables are not collateralized.

The fair value of the properties held as collateral by the Group as at 31 December 2016 was MNT'000 3,773,155,494 (31 December 2015: MNT'000 3,733,195,496).

25. RISK MANAGEMENT (CONT'D.)

25.2 Credit risk (cont'd.)

Credit quality per class of financial assets (cont'd.)

	Note	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total **
		MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2016							
Bank balances	10	156,516,000	–	–	–	–	156,516,000
Mortgage pool loan receivables with recourse*	12	26,889,099	1,473,297	159,609	18,398	99,543	28,639,946
Purchased mortgage pool receivables	13	1,981,467,031	107,294,046	17,209,181	8,114,278	18,176,005	2,132,260,541
Other assets	14	40,303	–	–	–	4,180	44,483
Total		2,164,912,433	108,767,343	17,368,790	8,132,676	18,279,728	2,317,460,970
At 31 December 2015							
Bank balances	10	128,131,174	–	–	–	–	128,131,174
Financial investments-held to maturity	11	2,899,001	–	–	–	–	2,899,001
Mortgage pool loan receivables with recourse*	12	9,905,232	879,917	130,958	176,208	104,502*	11,196,817
Purchased mortgage pool receivables	13	1,932,204,071	66,957,314	8,212,661	3,650,917	2,799,722	2,013,824,685
Other assets	14	70,319	–	–	–	4,180	74,499
Total		2,073,209,797	67,837,231	8,343,619	3,827,125	2,908,404	2,156,126,176

* The Group has the right to enforce the selling commercial banks to purchase back the loans which were overdue or to replace with other performing loans of similar nature. Currently, the management is closely monitoring those loans and accordingly will consider if the Group would exercise its right.

** As at 31 December 2016 and 2015, none of the financial assets are specifically impaired.

25. RISK MANAGEMENT (CONT'D.)

25.2 Credit risk (cont'd.)

The credit quality of the portfolio is primarily monitored based on ageing reports and is analysed through monitoring delays in payment (particularly over 90 days) in subsequent periods.

The Group purchases only performing mortgage loans (i.e. loans without delays). Thus, management believes that credit quality of purchased mortgage pools is adequate.

In accordance with the Group's credit risk procedures, the ratio between the carrying amount of purchased loans and the fair value of collateral (apartment or other residential property) at the time of purchase of the mortgage pools should not be greater than 70% and the Group has the first claim over all residential properties used as collateral.

25.3 Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. For managing Group's liquidity risk, certain methods outlined below have been implemented.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to current liabilities. However, the Group's repayment schedule of bonds is directly related to the collection of the repayments from the purchased mortgage pools; the Group has assessed that its exposure to liquidity risk is insignificant.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations.

25. RISK MANAGEMENT (CONT'D.)

25.3 Liquidity risk (cont'd.)

	On demand	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total undiscounted financial assets and liabilities
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2016							
Cash and bank balances	30,581,497	125,550,352	–	2,879,799	–	–	159,011,648
Mortgage loan pool receivables	–	1,701,869	1,684,727	3,303,352	22,307,795	19,688,296	48,686,039
Purchased mortgage pool	–	70,852,822	70,731,187	141,006,868	1,088,769,040	2,206,093,043	3,577,452,960
Other assets	40,303	–	–	–	–	–	40,303
Total financial assets	30,621,800	198,105,043	72,415,914	147,190,019	1,111,076,835	2,225,781,339	3,785,190,950
Borrowed funds	–	–	168,815	168,815	9,791,296	–	10,128,926
Collateralised bonds	–	65,281,811	56,455,350	111,580,905	896,733,055	2,086,731,374	3,216,782,495
Other liabilities	3,921,196	–	–	–	–	–	3,921,196
Total financial liabilities	3,921,196	65,281,811	56,624,165	111,749,720	906,524,351	2,086,731,374	3,230,832,617
Net liquidity gap	26,700,604	132,823,232	15,791,749	35,440,299	204,552,484	139,049,965	554,358,333

25. RISK MANAGEMENT (CONT'D.)

25.3 Liquidity risk (cont'd.)

	On demand	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total undiscounted financial assets and liabilities
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2015							
Cash and bank balances	42,335,716	82,211,380	4,886,915	–	–	–	129,434,011
Financial investments-held to maturity	–	3,000,000	–	–	–	–	3,000,000
Mortgage loan pool receivables	–	735,492	734,528	1,451,860	10,913,295	8,537,859	22,373,034
Purchased mortgage pool	–	65,165,905	65,153,295	129,930,816	1,007,343,092	2,194,062,902	3,461,656,010
Other assets	70,319	–	–	–	–	–	70,319
Total financial assets	42,406,035	151,112,777	70,774,738	131,382,676	1,018,256,387	2,202,600,761	3,616,533,374
Borrowed funds	–	–	293,153	168,815	9,791,296	–	10,253,264
Collateralised bonds	–	51,258,187	50,849,271	102,054,428	821,862,703	2,039,416,820	3,065,441,409
Other liabilities	3,489,583	–	–	–	–	–	3,489,583
Total financial liabilities	3,489,583	51,258,187	51,142,424	102,223,243	831,653,999	2,039,416,820	3,079,184,256
Net liquidity gap	38,916,452	99,854,590	19,632,314	29,159,433	186,602,388	163,183,941	537,349,118

25. RISK MANAGEMENT (CONT'D.)

25.3 Liquidity risk (cont'd.)

The above tables show the Group's exposure to liquidity risk based on the contractual maturities of financial assets and liabilities; however, if prepayments are made by the individual borrowers, it shortens the contractual maturity. In this case, the contractual maturity of the bonds is proportionally affected as the contractual principal repayment of the bond is equal to the principal repayment of mortgage pools and ultimately will not have significant impact on the overall liquidity of the Group.

25.4 Market risk

As noted previously, market risk is the risk that changes in market conditions, such as changes in interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group has no significant concentration of market risk.

Currency risk

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

The Group has no significant foreign currency denominated assets and liabilities.

Interest rate risk

Given that interest rates of the financial assets and liabilities are fixed due to the nature of the Group's operation, the Group's exposure to interest rate risk is limited.

As at 31 December 2016 and 31 December 2015, the Group's interest bearing assets (bank balances, financial investments-held to maturity, mortgage pool receivables with recourse and purchased mortgage pool receivables without recourse) and interest bearing liabilities (borrowed funds and collateralised bonds) have fixed interest rates and are not subject to repricing until they mature.

The table presents the aggregated amounts of the Group's interest bearing financial assets and liabilities at carrying amounts, categorised by their maturity dates.

At 31 December 2016	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Total financial assets	172,311,003	49,044,325	61,941,926	526,783,585	1,497,302,262	2,307,383,101
Total financial liabilities	52,548,123	29,055,161	57,530,258	522,727,450	1,512,267,942	2,174,128,934
Net interest sensitivity gap	119,762,880	19,989,164	4,411,668	4,056,135	(14,965,680)	133,254,167
At 31 December 2015						
Total financial assets	161,462,910	27,281,086	51,690,890	463,289,272	1,448,565,261	2,152,289,419
Total financial liabilities	38,231,709	25,025,788	51,252,792	468,876,252	1,463,022,036	2,046,408,577
Net interest sensitivity gap	123,231,201	2,255,298	438,098	(5,586,980)	(14,456,775)	105,880,842

25. RISK MANAGEMENT (CONT'D.)

25.5 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 Group 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 Group seeks to manage operational risk.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements. The estimated fair values fall under Level 2 since the inputs used to estimate the fair value are all market observable.

Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have 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 bank balances and variable rate financial instruments. Based on fair value assessments performed by the management, the estimated fair values of instruments with maturity more than one year approximate their carrying amounts as shown in the statement of financial position. This is due principally to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

Fixed rate financial instruments

The carrying value of the Group's fixed rate financial assets and liabilities approximates the fair value by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia.

27. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and fulfil its obligations to the investors of the RMBS by effectively managing the subsidiaries. In order to maintain or adjust the capital structure, the Group may issue new shares, obtain borrowings, invest in permitted investments or issue bonds. The amount of equity capital that the Group managed as of 31 December 2016 was MNT'000 135,141,294 (as of 31 December 2015: MNT'000 113,444,503).

Included in retained earnings as at 31 December 2016 are restricted retained earnings of MNT'000 82,148,485 (31 December 2015: MNT'000 37,252,156) that are attributable to the Group's SPCs and are restricted from distribution until the liquidation of the respective SPCs in accordance with the Articles of Charter of each SPC and FRC regulation.

Since establishment of its subsidiaries, MIK Asset One SPC LLC, MIK Asset Two SPC LLC, MIK Asset Three SPC LLC, MIK Asset Four SPC LLC, MIK Asset Five SPC LLC, MIK Asset Six SPC LLC, MIK Asset Seven SPC LLC, MIK Asset Eight SPC LLC, MIK Asset Nine SPC LLC, MIK Asset Ten SPC LLC, MIK Asset Eleven SPC LLC, MIK Asset Twelve SPC LLC and MIK Asset Thirteen SPC LLC, the Group's capital management structure focused on the management of the assets of the subsidiaries. Each year, upon settlement of the obligations of the Group, the BoD has resolved that any surplus funds are to be invested as follows:

(a) securities issued or guaranteed by the Government of Mongolia or BoM;
(b) accounts maintained with a bank regulated by BoM and having a rating by any of the rating agencies commonly known as Standard & Poor's, Fitch or Moody's.

The BoD has also resolved that any such investments will be of short term maturity and denominated in Tugrug.

The Group was not subject to any externally imposed capital requirements throughout 2016 and 2015

28. SUBSEQUENT EVENTS

In 20 January 2017, MIK Asset Ten SPC LLC and MIK Asset Eleven SPC LLC, wholly owned subsidiaries of the Company, have purchased mortgage pools from eleven (11) commercial banks amounting to MNT 96,349,294 thousand and MNT 67,522,849 thousand, respectively. As consideration for the purchase of these mortgage pools, MIK Asset Ten SPC LLC and MIK Asset Eleven SPC LLC have issued residential mortgage backed bonds to these banks amounting to MNT 96,348,800 thousand and MNT 67,522,500 thousand, respectively.

29. COMPARATIVES

Certain comparative amounts have been reclassified to conform with current year's presentation.

30. MONGOLIAN TRANSLATION

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.