

KHAN BANK LLC

Condensed Interim
Financial Information and
Review Report

30 June 2016

CONTENTS

REVIEW REPORT OF Independent Auditor

CONDENSED INTERIM FINANCIAL INFORMATION

Condensed Interim Statement of Financial Position	1
Condensed Interim Statement of Comprehensive Income	2
Condensed Interim Statement of Changes in Equity	3
Condensed Interim Statement of Cash Flows	4

Notes to the Condensed Interim Financial Information

1	Introduction	8
2	Operating Environment of the Bank	8
3	Summary of Significant Accounting Policies	9
4	Critical Accounting Estimates and Judgments in Applying Accounting Policies	10
5	Adoption of New or Revised Standards and Interpretations	10
6	New Accounting Pronouncements	10
7	Cash and Cash Equivalents	11
8	Due from Other Banks	12
9	Loans and Advances to Customers	12
10	Short Term Investments	15
11	Long Term Investments	16
12	Investment securities available for sale	16
13	Property and Equipment and Intangible Assets	16
14	Other Assets	16
15	Due to Other Banks	17
16	Customer Accounts	18
17	Other Borrowed Funds	18
18	Other Liabilities	20
19	Subordinated Debt	20
20	Interest Income and Expense	21
21	Other Operating Income	21
22	Fee and Commission Income	21
23	Administrative and Operating Expenses	22
24	Losses less gains from financial derivatives	22
25	Income Taxes	23
26	Contingencies and Commitments	24
27	Related Party Transactions	26
28	Seasonality of Operations	29
29	Events after Balance Sheet Date	29



Report on review of condensed interim financial information

To the members of Board of Directors and Shareholders of Khan Bank LLC:

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Khan Bank LLC (the "Bank") as of 30 June 2016 and the related condensed interim statement of comprehensive income for the three and six months then ended, condensed interim statements of changes in equity and condensed interim statement of cash flows and selected notes for the six months period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not properly prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".



Approved by:

Matthew Pottle
Partner
5 September 2016
Ulaanbaatar, Mongolia

KHAN BANK LLC
Condensed Interim Statement of Financial Position

<i>In thousands of Mongolian Tugriks</i>	Note	30 June 2016 (unaudited)	31 December 2015
Assets			
Cash and cash equivalents	7	1,061,287,360	679,589,550
Mandatory reserves with the Bank of Mongolia		401,953,956	335,259,682
Due from other banks	8	52,341,182	68,402,716
Loans and advances to customers	9	2,882,361,063	2,913,071,574
Short term investments	10	262,850,602	298,733,246
Long term investments	11	593,979,496	495,851,118
Investment securities available for sale	12	7,788,238	-
Investment securities held to maturity	26	58,532,256	50,306,287
Investments in associates		551,878	551,878
Other financial assets	14	64,975,006	64,271,172
Other non-financial assets	14	37,810,270	35,072,302
Intangible assets	13	19,596,624	15,407,472
Property and equipment	13	183,106,017	160,648,318
Total assets		5,627,133,948	5,117,165,315
Liabilities			
Due to other banks	15	43,825,456	62,002,706
Customer accounts	16	3,479,567,267	3,005,377,053
Other borrowed funds	17	1,234,994,910	1,224,345,106
Other financial liabilities	18	16,533,587	12,531,176
Current income tax liability	25	2,094,766	2,963,669
Deferred income tax liability	25	7,766,050	6,051,724
Other non-financial liabilities	18	9,101,748	13,233,791
Subordinated debt	19	222,387,512	225,957,009
Total liabilities		5,016,271,296	4,552,462,234
EQUITY			
Share capital		52,792,048	52,792,048
Treasury stock		(28,613,934)	(28,613,934)
Revaluation surplus		19,737,878	19,997,170
Other reserve	9	-	944,530
Revaluation reserve for AFS investment	12	385,302	-
Cash flow hedge reserve		6,185,396	-
Retained earnings		560,375,962	519,583,267
Total equity		610,862,652	564,703,081
Total liabilities and equity		5,627,133,948	5,117,165,315

Approved for issue and signed on behalf of the Executive Directors on 5 September 2016.



JOHN BELL
 Chief Executive Officer



MUNKHBAYAR, G.
 Director of Finance

The notes set out on pages 6 to 29 form an integral part of this condensed interim financial information.

KHAN BANK LLC
Condensed Interim Statement of Comprehensive Income

<i>In thousands of Mongolian Tugriks</i>	Note	Six-Month Period ended 30 June 2016 (unaudited)	Three-Month Period ended 30 June 2016 (unaudited)	Six-Month Period ended 30 June 2015 (unaudited)	Three-Month Period ended 30 June 2015 (unaudited)
Interest income	20	324,422,592	160,034,661	304,630,018	153,398,458
Interest expense	20	(196,841,473)	(99,326,582)	(163,473,921)	(81,710,334)
Net interest income		127,581,119	60,708,079	141,156,097	71,688,124
Charge of provision for loan impairment	9	(22,665,867)	(10,093,655)	(28,351,878)	(17,122,994)
Net interest income after provision for loan impairment		104,915,252	50,614,424	112,804,219	54,565,130
Fee and commission income	22	22,943,491	14,220,482	15,610,957	8,202,703
Fee and commission expense		(1,534,332)	(833,536)	(1,440,893)	(738,954)
Gains less losses from trading in foreign currencies		7,148,001	4,953,701	6,324,402	2,274,720
(Losses less gains)/Gains less losses from financial derivatives	24	(15,205,394)	8,421,811	12,599,938	11,135,811
Foreign exchange translation (losses less gains)/gains less losses		(777,813)	(362,379)	194,923	328,819
Increase of provision for other assets		(69,468)	(42,790)	(163,138)	(60,898)
Provision for investment securities		(1,166,353)	(1,019,228)	-	-
Other operating income	21	7,453,080	3,148,234	6,130,276	3,719,779
Administrative and other operating expenses	23	(82,033,966)	(41,061,401)	(76,628,601)	(38,971,626)
Profit before tax		41,672,498	38,039,318	75,432,083	40,455,484
Income tax expense	25	(2,083,625)	(1,901,966)	(9,267,858)	(5,446,117)
Profit for the period		39,588,873	36,137,352	66,164,225	35,009,367
Other comprehensive income:					
Available-for-sale investments:					
- Gains less losses arising during the period		385,302	385,302	-	-
Cash flow hedge reserve		6,185,396	6,185,396	-	-
Total comprehensive income for the period		46,159,571	42,708,050	66,164,225	35,009,367

The notes set out on pages 6 to 29 form an integral part of this condensed interim financial information.

KHAN BANK LLC
Condensed Interim Statement of Changes in Equity

<i>In thousands of Mongolian Tugriks</i>	Share capital	Share premium	Treasury stock	Revaluation surplus	Other reserve	Revaluation reserve for AFS inv. tm at	Cash flow hedge reserve	Retained earnings	Total equity
Balance at 1 January	32,995,030	14,140,923	(28,613,934)	20,583,600	-	-	-	404,511,248	443,616,867
Profit for the period	-	-	-	-	-	-	-	66,164,225	66,164,225
Total comprehensive income for the period	-	-	-	-	-	-	-	66,164,225	66,164,225
Transfer to other reserve Realized revaluation	-	-	-	-	2,479,433	-	-	(2,479,433)	-
	-	-	-	(270,334)	-	-	-	270,334	-
Balance at 30 June	32,995,030	14,140,923	(28,613,934)	20,313,266	2,479,433	-	-	468,466,374	509,781,092
Balance at 1 January	52,792,048	-	(28,613,934)	19,997,170	944,530	-	-	519,583,267	564,703,081
Profit for the period	-	-	-	-	-	-	-	39,588,873	39,588,873
Other comprehensive income for the period	-	-	-	-	-	385,302	6,185,396	-	6,570,698
Total comprehensive income for the period	-	-	-	-	-	385,302	6,185,396	39,588,873	46,159,571
Realized revaluation Transfer from regulatory reserve to retained earnings (Note 9)	-	-	-	(259,292)	-	-	-	259,292	-
	-	-	-	-	(944,530)	-	-	944,530	-
Balance at 30 June	52,792,048	-	(28,613,934)	19,737,878	-	385,302	6,185,396	560,375,962	610,862,652

The notes set out on pages 6 to 29 form an integral part of this condensed interim financial information.

KHAN BANK LLC
Condensed Interim Statement of Cash Flow

<i>In thousands of Mongolian Tugriks</i>	Note	Six-Month Period ended 30 June 2016 (Unaudited)	Six-Month Period ended 30 June 2015 (Unaudited)
Cash flows from operating activities			
Profit before tax		41,672,498	75,432,083
Adjustments to:			
Impairment provisions for loans and advances to customers	9	22,665,867	28,351,878
Amortization and depreciation	23	11,145,464	8,436,429
Loss on disposal of premises and equipment		79,175	67,257
Fair value (gain)/loss on derivative financial instruments		15,205,394	(12,599,938)
Employee benefits from below market interest rates loans		1,681,504	1,432,149
Net foreign exchange (gain)/loss		777,813	(194,923)
Property and equipment written off		364,102	85,315
Provision for other assets		69,468	163,138
Provision for securities		1,166,353	-
Other provision		3,584,000	2,237,333
Interest income	20	(324,422,592)	(304,630,018)
Interest expense	20	196,841,473	163,473,921
Cash flows used in operating activities before changes in operating assets and liabilities		(29,169,481)	(37,745,376)
Net increase in mandatory cash balances with the Bank of Mongolia		(66,940,146)	(19,259,291)
Net decrease/(increase) in due from other banks		15,051,668	(13,848,557)
Net decrease/(increase) in loans and advances to customers		14,770,329	(34,013,793)
Net (increase)/decrease in other financial assets		(18,519,917)	316,085
Net increase in other non-financial assets		(2,112,764)	(3,345,567)
Net decrease in due to other banks		(9,671,806)	(244,706,302)
Net increase/(decrease) in customer accounts		501,993,843	(83,817,417)
Net increase/(decrease) in other financial liabilities		(1,370,915)	(740,340)
Net decrease in other non-financial liabilities		(4,132,043)	(1,930,156)
Net cash provided from/ (used in) operating activities before tax		399,898,768	(439,090,714)
Income taxes paid		(3,300,000)	(6,559,833)
Interest received		294,526,644	288,634,368
Interest paid		(221,475,414)	(143,932,707)
Net cash provided from/(used in) operating activities		469,649,998	(300,948,886)

KHAN BANK LLC
Condensed Interim Statement of Cash Flow

<i>In thousands of Mongolian Tugriks</i>	Note	Six-Month Period ended 30 June 2016 (Unaudited)	Six-Month Period ended 30 June 2015 (Unaudited)
Cash flows from investing activities			
Acquisition of premises and equipment		(32,770,866)	(38,401,194)
Proceeds from disposal of premises and equipment		27,870	43,156
Acquisition of intangible assets		(5,403,809)	(2,639,933)
Acquisition of short term investments		(175,043,699)	(164,457,012)
Proceeds from sale of short term investments		231,336,800	78,000,000
Acquisition of long term investments		(132,464,302)	-
Proceeds from sale of long term investments		33,575,631	38,700,000
Acquisition of investment held to maturity		(8,152,800)	(13,648,200)
Acquisition of investment securities available for sale		(8,103,759)	-
Net cash used in) investing activities		(96,998,934)	(102,403,183)
Cash flows from financing activities			
Proceeds from drawdown of other borrowed funds		328,451,188	295,953,435
Repayment of other borrowed funds		(305,036,362)	(207,408,351)
Proceeds from subordinated debt		-	19,440,600
Repayment of subordinated debt		-	(38,779,400)
Net cash provided from financing activities		23,414,826	69,206,284
Effect of exchange rate changes on cash and cash equivalents		(14,368,080)	13,794,637
Net increase(decrease) in cash and cash equivalents		381,697,810	(320,351,148)
Cash and cash equivalents at the beginning of the period	7	679,589,550	1,131,550,460
Cash and cash equivalents at the end of the period	7	1,061,287,360	811,199,312

The notes set out on pages 6 to 29 form an integral part of this condensed interim financial information.

1 Introduction

This condensed interim financial information has been prepared in accordance with International Financial Reporting Standards for the six-month period ended 30 June 2016 for Khan Bank LLC (hereinafter - the "Bank") and consists of condensed interim statement of financial position of the Bank as of 30 June 2016 and the related condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows for the six-month period then ended and related explanatory notes.

The Bank was incorporated and is domiciled in Mongolia. The Bank is a limited liability company and was set up in accordance with Mongolian regulations. As of 30 June 2016 and 31 December 2015, the Bank's immediate and ultimate parent is Sawada Holdings Co. Ltd. (the "Parent" or "the parent company"), holding company incorporated and domiciled in Japan, listed on the Osaka Stock Exchange. Sawada Holdings Co. also represents ultimate controlling party of the Bank.

Principal activity. The Bank has operated under a full banking license No. 2 issued by the Bank of Mongolia (hereinafter referred to as "BOM") since 22 November 2006. The Bank's principal business activity is commercial and retail banking operations and financial services within Mongolia.

As at 30 June 2016, the Bank had 34 branches (including Head Office) within Mongolia (31 December 2015: 34 branches). Also, as at 30 June 2016, the Bank had 503 sub-branches (31 December 2015: 500 sub-branches).

The number of the Bank's employees as at 30 June 2016 was 4,566 (31 December 2015: 4,748).

Registered address and place of business. The Bank's registered address is: Seoul Street 25, P.O. Box-192 Ulaanbaatar-14250, Mongolia.

Presentation currency. This condensed interim financial information is presented in Mongolian Tugriks ("MNT"), unless otherwise stated.

2 Operating Environment of the Bank

Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. After recording steady growth in 2010 and 2011, the Mongolian economy has shown signs of a slowdown in 2012 and 2013 due to declining global commodities prices, concerns over slowing growth in China and changes to the Mongolian Foreign Investment Law made in 2012, which have slowed inbound foreign investment into the country. The slowdown of the economy continued further with the economy being adversely affected by significant decline in global commodity prices that took place since the last quarter of 2014, and further slowdown of the Chinese economy during 2015 and in 2016.

The country's rating was downgraded from 81 to 82 by Moody's rating agency in July 2014 followed by subsequent downgrade of major commercial banks from 81 to 82 and 83. On 3 November 2015, the country's rating was downgraded from "B+/B" by Standard and Poor's Rating Services with "negative" outlook to "B/B" with "stable" outlook.

On 18 July 2014, the Bank was assigned to 82 issuer rating with a negative outlook by Moody's rating agency.

According to the Bank of Mongolia, the monetary policy for 2016 intends to provide external economic balance, keep inflation at a low and stable level, strengthen economic stabilization and create an environment for balanced and sustainable medium to long-term economic growth.

The tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes (Refer to Note 26). The future economic performance of Mongolia is tied to the continuing demand from China and continuing volatile global prices for commodities as well as dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government together with tax, legal regulatory and political developments, including the outcome of Parliamentary elections scheduled for June 2016.

2 Operating Environment of the Bank (Continued)

Current uncertainty in world economy, volatility of financial markets, decline in global prices of commodities, slowdown of growth of Chinese economy, slowdown of Mongolian economy, depreciation of Mongolian Tugrik (MNT) against USO and EUR, and other potential risks could have a significant negative effect on Mongolian financial and corporate sectors.

In accordance with IFRS, the Bank's management has determined loan impairment provisions using the "incurred loss" model. Recognition of impairment losses that arose from past events is required and the recognition of impairment losses that could arise from future events is prohibited. These future events include for example, future changes in the economic environment. Impairment losses that could arise from future events cannot be recognized, no matter how likely those future events are. Thus, final impairment losses from financial assets could differ significantly from the current level of provisions.

However, management is unable to predict all developments, which could have an impact on the Mongolian economy, and consequently what effect, if any, they could have on the future financial position of the Bank. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business.

3 Summary of Significant Accounting Policies

Basis of preparation. This condensed interim financial information for the six-month period ended 30 June 2016 has been prepared in accordance with IAS 34, Interim Financial Reporting, and should be read in conjunction with the financial statements of the Bank for the year ended 31 December 2015 and related auditor's opinion thereon issued on 25 March 2016.

At 30 June 2016 the principal rate of exchange used for translating foreign currency balances was USO 1 = MNT 1,962.53 (31 December 2015: USO 1 = MNT 1,995.98).

The accounting policies and methods of computation adopted in the preparation of the condensed interim financial information are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2015, and for adoption of the new standards and interpretations as described in Note 5.

Any further changes to this condensed interim financial information require approval of the Managing Board who authorised this condensed interim financial information for issue.

Income taxes. Income tax expense is recognized in each interim period based on the best estimate of the weighted average effective annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the weighted average effective annual income tax rate changes. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings; that is, the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period.

Other reserve. Other reserve within equity is created as an appropriation of retained earnings based on the decision made by the shareholders or other authorized body, such as Executive Directors (i.e. the Bank's management). This reserve is non-distributable. Refer to Note 9.

Derivatives and hedging activities. Derivatives (long-term swaps with BoM) are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives (long term currency swaps) as hedges of a particular risk associated with the cash flows of recognised liabilities (foreign currency borrowings from International Financial Institutions) and highly probable forecast transactions (cash flow hedges).

The Bank documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

3 Summary of Significant Accounting Policies (Continued)

The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Notes 14 and 18. Movements in the hedging reserve in shareholders' equity are shown in the statements of changes in equity.

Cash flow hedge. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the cash flows related to settlement of long-term swaps takes place).

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial information and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed in the annual financial statements of the Bank for the year ended 31 December 2015.

5 Adoption of New or Revised Standards and Interpretations

There are no amended standards became effective for the Bank from 1 January 2016.

6 New Accounting Pronouncements

For new standards and interpretations that have been issued and are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Bank has not early adopted please refer to financial statements Note 6 for the year ended 31 December 2015.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

There are no other new standards and interpretations that have been issued after the reporting date that are mandatory for the annual periods beginning on or after 1 July 2016 or later, and which the Bank has not early adopted.

7 Cash and Cash Equivalents

<i>In thousands of Mongolian Tugriks</i>	30 June 2016 (unaudited)	31 December 2015	30 June 2015 (unaudited)
Cash on hand	136,081,191	164,623,851	167,400,586
Cash balances with the Bank of Mongolia (other than mandatory reserve deposits)	376,281,501	-	179,638,576
Correspondent accounts with other banks			
- Mongolia	10,784,126	8,176,918	57,858,684
- Other countries	174,097,972	212,859,376	63,491,369
Reverse securities sale and repurchase agreements with other banks with original maturities of less than three months	5,000,000	30,124,904	19,536,601
Bank of Mongolia treasury bills	229,888,034	84,905,851	116,790,574
Placements with other banks with original maturities of less than three months	123,406,313	96,765,190	131,294,368
Government treasury bills	5,748,223	82,133,460	75,188,554
Total cash and cash equivalents	1,061,287,360	679,589,550	811,199,312

Cash and cash equivalents are not collateralised. All amounts are classified as neither past due nor impaired.

Correspondent accounts, overnight placements, Bank of Mongolia treasury bills and Government treasury bills, placements and deposits with Bank of Mongolia and other banks, reverse securities sale and repurchase agreements with other banks with original maturities of less than three months represent balances with large and well-known foreign banks, top-rated Mongolian banks and the Bank of Mongolia.

The overall increase in cash and cash equivalents compared to 31 December 2015 is mainly due to the increase in customer deposit accounts, which were mainly used for foreign exchange trading with the Bank of Mongolia. As a result, cash balances with the Bank of Mongolia (other than mandatory deposits) have significantly increased as of 30 June 2016 compared to 31 December 2015.

The increase in cash and cash equivalents is also related to the fact that the Bank has invested in Bank of Mongolia treasury bills with nominal amount of MNT 230,000,000 thousand at interest rate of 10.50% p.a. with maturities of 7 days.

KHAN BANK LLC**Notes to the Condensed Interim Financial Information - 30 June 2016****8 Due from Other Banks**

<i>In thousands of Mongolian Tugriks</i>	30 June 2016 (unaudited)	31 December 2015
Short-term, placements with other banks with original maturities of more than three months and less than one year	52,341,182	66,339,365
Long-term placements with other banks with original maturities of more than one year	-	2,063,351
Total due from other banks	52,341,182	68,402,716

Amounts due from other banks are not collateralised and are all considered neither past due nor impaired.

All placements relate to well-known and top-rated local banks. The main change in short-term placements is due to the fact that new placements were made in the amount of USO 17,500 thousand and CNY 5,985 thousand at interest rates ranging between 6.5%-8.0% p.a. for USO placements and 1.62% p.a. for CNY placements with maturities of up to 364 days in local banks, while placements in the amount of USO 26,000 thousand outstanding as at 31 December 2015 matured in the first half of 2016.

Long-term placements with other banks as of 31 December 2015 matured in the second quarter of 2016 and no new long-term placements were placed as of 30 June 2016.

9 Loans and Advances to Customers

<i>In thousands of Mongolian Tugriks</i>	30 June 2016 (unaudited)	31 December 2015
Business lending	1,132,771,388	1,259,172,010
Consumer lending	1,746,366,158	1,566,229,894
Agricultural lending	138,124,789	201,461,619
Gross loans and advances to customers	3,017,262,335	3,026,863,523
Less: Provision for loan impairment	(134,901,272)	(113,791,949)
Total loans and advances to customers	2,882,361,063	2,913,071,574

The aggregate amount of loans to the 30 biggest customers amounting to MNT 499,170,241 thousand represents 16.5% of total loans and advances to customers as at 30 June 2016. Similarly, the aggregate amount of loans to the 30 biggest customers as of 31 December 2015 amounted to MNT 563,601,801 thousand and represented 18.6% of loan portfolio.

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during the six-month period ended 30 June 2016 are as follows:

<i>In thousands of Mongolian Tugriks (unaudited)</i>	Business lending	Consumer lending	Agricultural lending	Total
Provision for loan impairment at 1 January 2016	95,917,808	16,325,012	1,549,129	113,791,949
Provision/(release) for impairment during the period	13,764,324	9,134,682	(233, 139)	22,665,867
Gain less losses on foreign exchange translation	(1,527,869)	(28,675)	-	(1,556,544)
Provision for loan impairment at 30 June 2016	108,154,263	25,431,019	1,315,990	134,901,272

Movements in the provision for loan impairment during the six-month period ended 30 June 2015 are as follows:

<i>In thousands of Mongolian Tugriks (unaudited)</i>	Business lending	Consumer lending	Agricultural lending	Total
Provision for loan impairment at 1 January 2015	54,830,370	6,088,568	895,664	61,814,602
Provision for impairment during the period	22,167,693	6,033,155	151,030	28,351,878
Amounts written off during the period as uncollectible	(15,787)	(185,382)	(19,147)	(220,316)
Provision for loan impairment at 30 June 2015	76,982,276	11,936,341	1,027,547	89,946,164

In accordance with the regulation of the Bank of Mongolia (the "BOM") it is required to recognize the difference between impairment provision determined in accordance with the regulations of BOM ("BOM impairment provision") and impairment provision determined under IFRS as a reserve in the statement of changes in equity. The amount of the reserve, created by the Bank as of 31 December 2015 was MNT 944,530 thousand. This reserve is created as appropriation of the Bank's retained earnings, as such treatment is in accordance with IFRS and the new accounting regulations of the Bank of Mongolia, which are effective from 1 January 2016, and represents regulatory reserve. However the Bank decided to adopt the regulation earlier. As of 30 June 2016, impairment provision determined under IFRS approximates BOM impairment provision. Therefore, the full amount of regulatory reserve is transferred to retained earnings in accordance with the Bank of Mongolia regulations.

Information on related party balances is disclosed in Note 27.

KHAN BANK LLC**Notes to the Condensed Interim Financial Information - 30 June 2016****9 Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 30 June 2016 is as follows.

<i>In thousands of Mongolian Tugriks</i>	Business lending	Consumer lending	Agricultural lending	Total
<i>Neither past due nor impaired</i>				
- Excellent	285,275,896	536,408,292	114,963,909	936,648,097
- Good	588,504,497	1,174,877,326	14,798,662	1,778,180,485
- Loans renegotiated	43,768,550	3,236,554	6,203,858	53,208,962
Total neither past due nor impaired	917,548,943	1,714,522,172	135,966,429	2,768,037,544
<i>Past due but not impaired</i>				
- less than 30 days overdue	9,403,575	5,673,486	626,381	15,703,442
- 31 to 90 days overdue	18,549,880	5,735,212	265,629	24,550,721
- 91 to 180 days overdue	15,333	2,559,933	4,939	2,580,205
- 181 to 360 days overdue	70,445	2,594,832	2,637	2,667,914
- over 360 days overdue	2,755,058	2,457,202	-	5,212,260
Total past due but not impaired	30,794,291	19,020,665	899,586	50,714,542
<i>Impaired loans</i>				
- not past due	64,113,387	-	-	64,113,387
- less than 30 days overdue	9,169,307	-	-	9,169,307
- 31 to 90 days overdue	7,246,843	-	-	7,246,843
- 91 to 180 days overdue	27,981,477	3,487,238	417,878	31,886,593
- 181 to 360 days overdue	10,692,904	3,858,573	554,586	15,106,063
- over 360 days overdue	65,224,236	5,477,510	286,310	70,988,056
Total individually impaired loans	184,428,154	12,823,321	1,258,774	198,510,249
Less impairment provisions	(108,154,263)	(25,431,019)	(1,315,990)	(134,901,272)
Total loans and advances to customers	1,024,617,125	1,720,935,139	136,808,799	2,882,361,063

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2015 is as follows.

<i>In thousands of Mongolian Tugriks</i>	Business lending	Consumer lending	Agricultural lending	Total
<i>Neither past due nor impaired 2015</i>				
- Excellent	306,235,366	485,708,385	149,796,953	941,740,704
- Good	696,138,586	1,057,287,565	44,168,245	1,797,594,396
- Loans renegotiated	43,505,341	3,010,823	5,954,119	52,470,283
Total neither past due nor impaired	1,045,879,293	1,546,006,773	199,919,317	2,791,805,383
<i>Past due but not impaired</i>				
- 1 to 30 days overdue	7,841,664	4,093,617	388,274	12,323,555
- 31 to 90 days overdue	6,656,626	3,601,001	623,199	10,880,826
- 91 to 180 days overdue	191,462	79,376	10,509	281,347
- 181 to 360 days overdue	45,985	45,321	903	92,209
- over 360 days overdue	3,004,605	353,731	-	3,358,336
Total past due but not impaired	17,740,342	8,173,046	1,022,885	26,936,273
<i>Impaired loans</i>				
- not past due	64,795,520	-	-	64,795,520
- 1 to 30 days overdue	12,200,413	-	-	12,200,413
- 31 to 90 days overdue	18,619,116	-	-	18,619,116
- 91 to 180 days overdue	21,007,139	3,575,568	195,254	24,777,961
- 181 to 360 days overdue	23,038,628	5,188,793	192,839	28,420,260
- over 360 days overdue	55,891,559	3,285,714	131,324	59,308,597
Total impaired loans	195,552,375	12,050,075	519,417	208,121,867
Less impairment provisions	(95,917,808)	(16,325,012)	(1,549,129)	(113,791,949)
Total loans and advances to customers	1,163,254,202	1,549,904,882	199,912,490	2,913,071,574

10 Short Term Investments

In the first quarter of 2016, the Bank has invested in MNT denominated government treasury bills of the Ministry of Finance, which have nominal value of MNT 79.5 billion, and have effective interest rates ranging from 15.0% to 16.0% p.a. and original maturities ranging from 196 to 364 days. In addition, the Bank has invested in MNT 26 billion of promissory notes, which have interest rates ranging from 14.9% to 15.2% p.a. and original maturities ranging from 320 to 365 days.

In the second quarter of 2016, the Bank has invested in MNT and USO denominated government treasury bills of the Ministry of Finance, which have nominal value of MNT 52.2 billion and USO 7.9 million respectively, and have effective interest rates ranging from 14.3% to 15.5% p.a. for MNT investments and from 5.3% to 9.1% p.a. for USO investments and original maturities ranging from 267 to 364 days. In addition, the Bank has invested in MNT 16 billion of promissory notes, which have interest rates ranging from 14.3% to 14.9% p.a. and original maturities ranging from 232 to 365 days.

10 Short Term Investments (Continued)

In the first and second quarter of 2016, the Bank has received MNT 85.9 billion and MNT 145.4 billion respectively, as a result of repayment of treasury bills issued by Government in the previous periods due to expiry of the bills.

11 Long Term Investments

In the first quarter of 2016, the Bank has invested in MNT and USO denominated government bonds of the Ministry of Finance, which have nominal value of MNT 9.1 billion, and have effective interest rates ranging from 10.6%-15.5% p.a. and original maturities ranging from 414 to 730 days.

In the second quarter of 2016, the Bank has invested in MNT, USO and CNY denominated government bonds of the Ministry of Finance, which have nominal value of MNT 132 billion, and have effective interest rates ranging from 3.0%-15.75% p.a. for MNT, 6.5%-9.0% p.a. for USO and 14.1%-15.2% p.a. for CNY and original maturities ranging from 576 to 1095 days.

In the second quarter of 2016, the Bank has received MNT 33.5 billion for government bonds issued by Ministry of Finance in the same period.

Remaining change relates to change in accrued interest (in the form of amortised discounts) of existing long-term investments as of 30 June 2016.

In addition, the Bank has invested in long-term bonds issued by the Development Bank of Mongolia, which have nominal value of MNT 6.8 billion, with effective yields ranging from 6.45%-9.0% p.a. The bonds mature in 2017 and 2019.

12 Investment securities available for sale

Investment securities available for sale represent long-term bond issued by the Trade and Development Bank of Mongolia, which has nominal value of USO 4 million with effective yield of 11.26% p.a. and has maturities ranging from 1474-1477 days. The bond is actively traded at Singapore Stock Exchange.

Increase in fair value of investment securities available for sale from the acquisition date to reporting date of MNT 385,302 thousand is recognized in other comprehensive income.

13 Property and Equipment and Intangible Assets

Total increase in construction in progress, including prepayments, for the period of six months ended 30 June 2015 amounted to MNT 32,767,280 thousand (30 June 2015: acquisitions amounted to MNT 38,321,066 thousand) and mainly consists of prepayments for new ATMs and a new head office building under construction. The acquisitions and disposals of other types of fixed assets were insignificant.

The increase in intangible assets mostly relates to the purchase of software for custodian services, which represent recently introduced new business for the Bank.

14 Other Assets

<i>In thousands of Mongolian Tugriks</i>	30 June 2016 (unaudited)	31 December 2015
Other financial assets	64,975,006	64,271,172
Other non-financial assets	37,810,270	35,072,302

14 Other Assets (Continued)

As of 30 June 2016, the fair value of financial derivatives is MNT 36,271,447 thousand and it is included in Other financial assets (31 December 2015: MNT 58,124,676).

The decrease in fair value of financial derivatives compared to 31 December 2015 mostly relates to long-term swaps with the Bank of Mongolia in the amount of MNT 21,578,823 thousand, out of which MNT 7,963,412 is recognized in gains less losses from financial derivatives, net of foreign exchange translation losses from borrowings related to those swaps. Refer to Note 24. The remaining decrease in fair value of financial derivatives is recognized in cash flow hedge reserve.

The remaining other financial assets mainly represent the receivable from State Social security office and settled in the next month (i.e July 2016).

The balance also represents receivables on cash and settlements services as a result of withdrawal of cash from the Bank's ATMs by the cardholders of other banks as of 30 June 2016. Related balances were settled on 1 July 2016 (next working day).

Other non-financial assets mostly relate to fair value adjustments for initial recognition of loans to employees issued at preferential rates, which represent salary prepayments and are recognized within other non-financial assets, in accordance with IFRS requirements.

The increase in other non-financial assets compared to 31 December 2015 mostly relates to prepayments for rent and prepayments for insurance and other service fees.

15 Due to Other Banks

<i>In thousands of Mongolian Tugriks</i>	30 June 2016 (unaudited)	31 December 2015
Correspondent accounts and overnight placements of other banks	35,652,627	15,821,719
Sale and repurchase agreements with securities with other banks	2,429,000	-
Short-term placements of other banks	5,743,829	46,180,987
Total due to other banks	43,825,456	62,002,706

Due to other banks includes correspondent accounts, short-term placements with Mongolian and foreign banks. The amounts due to other banks have decreased as a result of reduced liquidity of the Mongolian banking sector during 2015 and 2016, which led to increase in cost of related funding, as well as due to increase in customer deposits during the second quarter of 2016 (Note 16).

The decrease in the amounts due to other banks is mainly related to the fact that all short-term placements in the amount of MNT 45.7 billion as of 31 December 2015 matured in the first half of 2016 and new placements with total amount of MNT 5.7 billion outstanding as of 30 June 2016 were received at interest rate of 8% p.a. with maturity of 365 days for MNT placement, and for EUR placement at interest rate ranging from 1% p.a. to 4% p.a. with maturities up to 182 days.

KHAN BANK LLC**Notes to the Condensed Interim Financial Information- 30 June 2016**

16 Customer Accounts

	30 June 2016 (unaudited)	31 December 2015
<i>In thousands of Mongolian Tugriks</i>		
State and public organizations		
- Current/settlement accounts	84,433,841	106,563,367
- Demand deposits	16,899,234	10,338,529
- Term deposits	16,307,915	16,704,567
Legal entities		
- Current/settlement accounts	367,591,689	301,280,051
- Demand deposits	33,296,692	22,456,772
- Term deposits	354,625,812	347,255,558
Individuals		
- Current/demand accounts	304,376,550	198,663,186
- Demand deposits	682,989,965	541,457,789
- Term deposits	1,619,045,569	1,460,657,234
Total customer accounts	3,479,567,267	3,005,377,053

As at 30 June 2016 the aggregate amount of the top 30 biggest customers is 533,361,055 thousand (31 December 2015: MNT 431,741,733 thousand) or 15.33% of total customer accounts (31 December 2015: 14.37%).

As at 30 June 2015 included in customer accounts are deposits of MNT 6,633,546 thousand (31 December 2015: MNT 6,946,741 thousand) held as collateral for irrevocable commitments under import letters of credit and guarantees. Refer to Note 26.

17 Other Borrowed Funds

Terms of the main borrowing agreements are provided in the annual financial statements of the Bank for the year ended 31 December 2015, except for newly obtained funds, which are disclosed below. Information on related party balances is disclosed in Note 27. For more information on the Bank's compliance with covenants refer to Note 26.

Borrowed funds from foreign financial institutions

New borrowed funds from foreign financial institutions received during the six-month period ending 30 June 2016 is provided below.

<i>In millions of USO</i>					
Disbursement date	Issuer	Amount	Currency	Interest Rate	Maturity
28-Jan-2016	Sawada Holdings Co Ltd	7.000	USO	Fixed at 7.8%	29-Jan-2018
28-Jan-2016	EBRO	1.350	USO	6m LIBOR +5.5%	15-Nov-2020
19-May-2016	Blue Orchard Microfinance Fund	10.000	USO	Fixed at 6.7%	19-May-2019

On 28 January 2016, the Bank entered into a loan agreement with Sawada Holdings and received USD 7,000 thousand at fixed interest rate of 7.8% p.a. with maturity of 2 years.

On 28 January 2016, the Bank has drawn USD 1,350 thousand as the first tranche under the Loan agreement dated 20 November 2015 for USD 10,000 thousand with EBRD to finance risk shared loans. The loan bears interest rate of six month LIBOR+5.5% p.a. and interest is payable semi-annually. The maturity date of the loan is 15 November 2020.

17 Other Borrowed Funds (Continued)

On 19 May 2016, the Bank entered into a loan agreement with Blue Orchard Microfinance Fund and received USD 10,000 thousand at fixed rate of 6.7% p.a. with maturity of 3 years.

During the six-month period ending 30 June 2016, the Bank made the following principal payments in accordance with the repayment schedules of existing loan agreements:

- USD 6,595 thousand of EBRO funding
- USD 5,970 thousand of IFC funding
- USD 5,167 thousand of Blue Orchard funding
- USD 7,417 thousand of FMO Syndicated funding
- USD 1,250 thousand of International Investment Bank funding
- USD 7,000 thousand of Sawada Holdings Co., Ltd funding
- USD 5,000 thousand of ResponsAbility SICAV funding

Borrowed funds from government organizations

As part of the mortgage loan program implemented by the Government in 2016, the Bank entered into financing agreement with the Ministry of Finance and received MNT 35,586,100 thousand during the first half of 2016. Additionally, funds in the amount of MNT 49,000,000 thousand were transferred from funding with 4% p.a. to funding with 2% p.a. In line with this agreement, Bank disburses mortgage loans to individuals who buy apartments in 21 provinces and 3 isolated districts in Ulaanbaatar. The mortgage program funding bears 2% p.a. interest rate and the Bank then issues mortgage loans at the interest rate of 5% p.a. The Bank approves all loans disbursement and bears the credit risk. Management's judgment is that this borrowing and related loans represent a principal market and thus no initial gains or losses arise on these transactions. For management's judgement refer to Note 4 in the annual financial statements of the Bank for the year ended 31 December 2015.

During the six months of 2016, the Bank received funds in the amount of MNT 75,364,800 thousand from the Bank of Mongolia for mortgage loan program implemented by the Government at interest rate of 4% p.a. As stated above, funds in the amount of MNT 49,000,000 thousand were transferred from funding with 4% p.a. to funding with 2% p.a. For management's judgments refer to Note 4 in the annual financial statements of the Bank for the year ended 31 December 2015.

During the six months of 2016, the Bank received additional funds in the amount of MNT 7.1 billion from Development Bank of Mongolia as part of industrial support program, and additional funds in the amount of MNT 5.8 billion from Development Bank of Mongolia as part of the SME Investment Fund program. These borrowings are obtained at the interest rate of approximate 6% p.a. Management's judgment is that this borrowing and related loans represent a principal market and thus no initial gains or losses arise on these transactions. For management's judgement refer to Note 4 in the annual financial statements of the Bank for the year ended 31 December 2015.

The Bank entered into loan agreement with the Development Bank of Mongolia on 3 May 2016 to finance the hotels where representatives of the 11th ASEM summit will stay. As part of this program, MNT 2.4 billion loan has been disbursed with the maturity of 36 months to 3 borrowers.

On 3 May 2016, the Bank also entered into loan agreement with the Development Bank of Mongolia in scope of "Agricultural industry development" short-term program according to the parliament's 108th resolution of 2015 and the government's 42nd resolution of 2016. Within this program, loan of MNT 2.7 billion was disbursed to 4 borrowers with the maturity of 24 months.

In the second quarter of 2016, the Bank received fund in amount of MNT 103 billion from Bank of Mongolia as part of Good Herder program. The borrowing is obtained at the interest rate of 3% p.a.

In addition, as part of the two-step loan project for Small and Medium Enterprise development and environmental protection, the Bank has disbursed loans in the amount of MNT 1.24 billion which bears an interest rate of 7% p.a.

17 Other Borrowed Funds (Continued)

During the six months period ending 30 June 2016, the Bank repaid:

- MNT 81,528,800 thousand of 4% p.a. Mortgage funding;
- MNT 5,479,418 thousand of 2.5% p.a. Sub-Program of FPS to Construction sector support and apartment price stabilization program;
- MNT 5,665,395 thousand of 0.89% p.a. Sub-program of FPS to increase the storehouses for Food products and develop the intensive farming;
- MNT 4,086,487 thousand of principal payment to SME Development fund;
- MNT 3,431,355 thousand of principal payment to Development bank of Mongolia in the framework of overall 4 programs of supporting export;
- MNT 1,408,405 thousand of 0.6% p.a. to Small Medium Enterprise Development Fund /Wool & Cashmere loan/;
- MNT 2,109,851 thousand of 3.0% p.a. to Two step loan project for SME development and environmental protection, USO 155,522 of 1.65% p.a.;
- MNT 720,000 thousand of 6.5% p.a. to Microfinance Development Fund;
- MNT 232,122 thousand to Agriculture and Rural Development Project;
- MNT 60,000 thousand of 5.75% p.a. to Private Sector Development Credit, USO 5,700 of 1.44% p.a.;
- MNT 4,450 thousand. to Labor Support Fund;
- USO 36,5 thousand of Rural poverty reduction program to IFAD.

Trade finance

During the six months period ending 30 June 2016, the Bank repaid funding in the total amount of USO 29,934 thousand related to credit line from Cargill Financial Service.

18 Other Liabilities

<i>In thousands of Mongolian Tugriks</i>	30 June 2016 (unaudited)	31 December 2015
Other financial liabilities	16,533,587	12,531,176
Other non-financial liabilities	9,101,748	13,233,791

Other financial liabilities are mainly related to the amount of payables on cash and settlements services. Related balances were settled on 1 July 2016 (next working day). Increase in other financial liabilities compared to 31 December 2015 mostly relates to fair value of financial derivatives. As of 30 June 2016, the fair value of financial derivatives is MNT 3,712,074 thousand and it is included in other financial liabilities (31 December 2015: nil). Most of the other financial liabilities are expected to be settled within twelve months after 30 June 2016.

The decrease in non-financial liabilities mostly relates to decrease in employees bonus accrual in amount of MNT 3.9 billion, which represents payment of bonus in amount of MNT 10.5 billion accrued as of 31 December 2015 and bonus in amount of MNT 6.6 billion accrued additionally as of 30 June 2016, relating to performance of first half of 2016. All non-financial liabilities are of short-term nature.

19 Subordinated Debt

Terms of the main subordinated loan agreements are provided in the annual financial statements of the Bank for the year ended 31 December 2015. There were no new funds obtained in the first and second quarter of 2016. The decrease in the balance is mostly due to foreign exchange translation gains, as well as payment of accrued interest. Information on related party balances is disclosed in Note 27.

For more information on the Bank's compliance with covenants refer to Note 26.

KHAN BANK LLC**Notes to the Condensed Interim Financial Information - 30 June 2016**

20 Interest Income and Expense	Six-Month Period ended 30 June 2016 (unaudited)	Three-Month Period ended 30 June 2016 (unaudited)	Six-Month Period ended 30 June 2015 (unaudited)	Three-Month Period ended 30 June 2015 (unaudited)
<i>In thousands of Mongolian Tugriks</i>				
Interest income				
Loans and advances to customers	258,644,495	127,956,412	254,860,906	128,788,001
Cash and cash equivalents	6,436,877	2,146,407	15,268,863	6,243,603
Long term investments	36,960,977	18,873,780	16,397,442	7,784,296
Short term investments	20,851,755	10,260,024	13,957,410	8,108,869
Due from other banks	1,528,488	798,038	4,145,397	2,473,689
Total interest income	324,422,592	160,034,661	304,630,018	153,398,458
Interest expense				
Customer accounts	144,994,287	74,509,276	112,651,172	56,453,270
Other borrowed funds	39,186,284	19,209,188	31,694,610	16,371,035
Subordinated debt	10,068,045	5,051,608	8,242,742	4,140,784
Due to other banks	2,592,857	556,510	10,885,397	4,745,245
Total interest expense	196,841,473	99,326,582	163,473,921	81,710,334
Net interest income	127,581,119	60,708,079	141,156,097	71,688,124

21 Other Operating Income

Other operating income in the amount of MNT 7,453,080 thousand mostly relates to one-off interest income on placed mandatory reserves received from the Bank of Mongolia based on the resolution of the Bank of Mongolia applicable to all Mongolian banks, as the Bank maintained the required level of mandatory reserve during the first half of 2016. As this is a temporary measure of the Bank of Mongolia, management concluded that related amounts do not represent the Bank's revenue i.e. interest income.

22 Fee and Commission Income

22 Fee and Commission Income	Six-Month Period ended 30 June 2016 (unaudited)	Three-Month Period ended 30 June 2016 (unaudited)	Six-Month Period ended 30 June 2015 (unaudited)	Three-Month Period ended 30 June 2015 (unaudited)
<i>In thousands of Mongolian Tugriks</i>				
Fee and commission income				
Commissions on operations with plastic cards	8,381,975	4,727,972	6,232,368	3,278,607
Commissions on settlement transactions	7,166,893	5,203,399	3,168,259	1,689,799
Commissions on mobile-service provided	4,131,598	2,488,055	2,312,183	1,306,149
Commissions on documentary business and guarantees	795,136	375,955	1,967,323	924,559
Commissions on cash operations	472,661	261,188	548,601	292,119
Commissions on transfer payments	365,544	195,726	334,911	208,765
Other	1,629,684	968,187	1,047,312	502,705
Total fee and commission income	22,943,491	14,220,482	15,610,957	8,202,703

Commission income on settlement transactions includes non-recurring fee and commission income in the amount of approximately MNT 2.9 billion, which relates to one-off transactions which occurred in June 2016, as a result of the Government's initiatives..

23 Administrative and Operating Expenses

<i>In thousands of Mongolian Tugriks</i>	Six-Month Period Ended 30 June 2016 (unaudited)	Three-Month Period Ended 30 June 2016 (unaudited)	Six-Month Period Ended 30 June 2015 (unaudited)	Three-Month Period Ended 30 June 2015 (unaudited)
Salary costs	37,442,491	18,651,459	34,693,349	17,860,401
Depreciation of property and equipment and amortization of intangible assets	11,145,463	5,726,583	8,436,429	4,322,637
Equipment repair and maintenance expenses	5,571,582	2,847,520	4,536,439	2,306,216
Rent	4,404,429	2,146,351	4,254,125	2,116,489
Social security contributions	3,808,110	1,901,917	3,705,578	1,907,676
Premises repair and maintenance expenses	3,180,213	1,322,905	2,856,377	1,231,801
Advertising and marketing services	1,674,610	914,801	2,209,179	1,111,223
Research expenses	251,666	109,027	1,712,577	931,929
Security services	1,793,598	904,240	1,354,215	711,058
Office materials and supplies	1,379,202	748,528	1,218,206	599,402
Transportation	1,226,876	644,793	1,192,246	616,188
Information and telecommunication services	1,563,989	871,906	1,139,078	570,850
Business trip expenses	863,413	432,366	950,925	461,482
Professional services	972,390	491,445	630,203	315,421
Training expenses	335,006	145,708	434,898	220,651
Events	385,344	171,469	372,784	180,772
Taxes other than on income	399,802	203,905	359,940	191,158
Insurance	373,942	193,913	309,355	177,441
Other	5,261,840	2,632,565	6,262,698	3,138,831
Total administrative and other operating expenses	82,033,966	41,061,401	76,628,601	38,971,626

Fees paid to the Board of Directors for the six-month period ended 30 June 2016 of MNT 419,375 thousand (the six-month period ended 30 June 2015: MNT 355,024 thousand) are included in administrative and other expenses and are further disclosed in Note 27.

24 Losses less gains from financial derivatives

Gains less losses from financial derivatives mostly relate to long-term swaps with the Bank of Mongolia and are presented net of foreign exchange translation losses arising from borrowings used for financing of these long-term swaps. Refer to the Bank's accounting policy in Note 3 of the IFRS financial statements for the year ended 31 December 2015.

The breakdown of (losses less gains)/gains less losses from financial derivatives, including long-term swaps and related foreign exchange translation losses, is provided below:

<i>In thousands of Mongolian Tugriks</i>	Six-Month Period Ended 30 June 2016 (unaudited)	Six-Month Period Ended 30 June 2015 (unaudited)
Day 1 gain on Long term swaps	-	10,383,380
{Losses less gains}/gains less losses from changes in fair value of long-term and short-term swaps between current and previous periods, other than day 1 gains, including realized losses from short-term swaps	(17,656,501)	18,297,251
Foreign exchange translation loss on borrowings	(443,293)	(14,703,234)
Changes in fair value of short-term derivatives	2,894,400	(1,377,459)
Total	(15,205,394)	12,599,938

24 Losses less gains from financial derivatives (Continued)

Significant decrease in financial result from financial derivatives in the six-month period ended 30 June 2016 compared to six-months period of 2015 is mainly due to the following:

- The Bank has not entered into any new long-term swaps in the first and second quarter of 2016. Gains from long-term swaps of MNT 10,383,380 thousand in the six-month period ended 30 June 2015 represent gains on initial recognition of new swaps entered with BOM during the first half of 2015 at very favorable conditions.
- Significant loss of fair value of long-term swaps in the amount of MNT 7,963,412 thousand included in the amount of MNT 17,656,501 thousand, in the first half of 2016 has resulted from significant changes in market inputs affecting fair value of these swaps (i.e. decrease in policy rate of the BOM and related MNT denominated repurchase agreements and appreciation of MNT during the first half of 2016). The amount of MNT 4,543,348 thousand is represented by realized losses, incurred on long-term swaps during the first half of 2016.
- The Bank has started applying hedge accounting from 1 May 2016. As a result, the Bank recognized MNT 6,185,396 thousand within cash flow hedge reserve in the statement of changes in equity, representing the effective portion of hedge. Included in the amount of MNT 17,656,501 thousand is MNT 5,248,933 thousand representing forward points on long-term swaps, calculated as the difference between the spot and forward rate at hedge inception, which refers to the period from 1 May 2016 to 30 June 2016 and has been recognized as an expense in profit and loss and as an increase of cash flow hedge reserve in accordance with IFRS requirements.

25 Income Taxes

Income tax charge of MNT 2,083,625 thousand for the six-month period ended 30 June 2016 represents the income tax charge calculated based on the estimated effective income tax rate that will be applicable for the annual financial statements of the Bank for the year ending 31 December 2016 in accordance with IAS 34 requirements, which is estimated as 5% based on the Bank's current budget for the year 2016. Decrease in effective tax rate compared to 2015 (12% for six-month period ended 30 June 2015 resulting in income tax charge of MNT 9,267,858 thousand) is mainly due to planned higher volume of investment in government bonds during 2016, which interest income is non-taxable under Mongolian legislation and forecasts of significant losses from revaluation of borrowings denominated in foreign currency (mostly USD) due to depreciation of MNT.

The Bank's income tax charge recognized in this interim financial information for the six-month period ended 30 June 2016 differs from the actual income tax result for the six-month period ended 30 June 2016. In accordance with IAS 34 requirements, the Bank has not recognized deferred tax asset and related deferred income tax credit in the amount of MNT 3,055,000 thousand in this interim financial information, although this deferred tax asset is assessed as recoverable. This deferred tax asset mostly relates to temporary differences arising from changes in fair value of long-term swaps and foreign exchange translation differences from borrowings specifically used for financing of long term swaps.

Refer to Note 3 of the annual financial statement of the Bank for the year ended 31 December 2015 for the accounting and tax treatment and presentation of changes in fair value of financial derivatives and unrealized foreign exchange translation differences from borrowings specifically used for financing of long term swaps. Also, please refer to Note 4 of the annual financial statement of the Bank for the year ended 31 December 2015 for the detailed description of related management's judgments in applying accounting policies, as well as Note 29 of the annual financial statements of the Bank for the year ended 31 December 2015 for detailed information on deferred tax assets and liabilities.

The Bank of Mongolia amended the "Regulations on Asset Classification and Provisioning" on 26 August 2014. As a result of the amendment, all loans issued after the effective date shall be provided for at 1% provision for the purposes of reporting impairment provision to the Bank of Mongolia (i.e. central bank). According to tax regulation on corporate income tax, any impairment provision charges for the performing loans represent non-deductible expenses for the period.

25 Income Taxes (Continued)

As a result, this change in regulations has resulted in increase in the deferred tax asset. Management's judgments related to recognition and recoverability of deferred tax asset on impairment losses on loans and advances to customers are outlined in Note 4 of the annual financial statement of the Bank for the year ended 31 December 2015.

26 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of current claims.

The Bank has outstanding litigation in amount of MNT 12 billion as of 30 June 2016 and 31 December 2015, however the management believes likelihood of the litigation to be charged is remote. There were no other major litigations. Accordingly, no provision has been made in this condensed interim financial information in respect of such claims.

In 2014, auditors from the Authority for Fair Competition and Consumer Protection released a report revealing that commercial banks violated the law by charging loan origination fee. However, the commercial banks won the dispute in the Court of First Instance. As of 30 June 2016 and 31 December 2015, there were no litigations filed against commercial banks in the Supreme Court by the Authority for Fair Competition and Consumer Protection. Management has considered possibility of this government institution raising the claim at Supreme Court and concluded that risk of unfavorable outcome for commercial banks is remote.

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

The 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.

The 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, transfer pricing and other areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. 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 believes that its interpretation of the relevant legislation is appropriate and the Bank's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk 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.

As of 30 June 2016 and 31 December 2015, management has assessed that recognition of a provision for uncertain tax positions is not necessary.

Operating lease commitments. The Bank has no long-term non-cancellable operating leases, however annual operating leases and long-term land leases can be cancelled under relatively short notice. Thus, management believes that the amount of the future minimum lease payments under non-cancellable operating leases is not material.

26 Contingencies and Commitments (Continued)

Compliance with covenants. The Bank is subject to certain covenants related primarily to its other borrowed funds and subordinated debts. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default.

Management believes that the Bank was in compliance with all covenants as at 30 June 2016. The Bank expected potential breach of a covenant (NPL ratio and net NPL ratio). The Bank sent the Certificates of Compliance accompanied by requests for waiver with the above-mentioned covenant and amendment of the agreement to creditors IFC, 118 and OFID. As at 30 June 2016, the waiver letters have been obtained. According to the waiver letters, the abovementioned covenant is adjusted and shall be below 12% and 8% respectively, and waivers are effective during the period from 28 February 2016 to 28 February 2017.

Information on compliance with covenants as of 31 December 2015 is disclosed in the annual financial statements of the Bank for the year ended 31 December 2015.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Outstanding credit related commitments are as follows:

<i>In thousands of Mongolian Tugriks</i>	30 June 2016 (unaudited)	31 December 2015
Guarantees issued	46,589,865	38,404,715
Irrevocable undrawn credit lines	32,031,386	28,986,219
Import letters of credit	11,093,306	18,261,251
Total credit related commitments	89,714,557	85,652,185

The Bank's management believes that fair value of issued guarantees, letters of credit, and loan and credit line commitments are not material as of 30 June 2016 and 31 December 2015.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The Bank has not recognized provision on credit related commitments, as the management is not aware of any losses incurred due to the deterioration of the financial conditions of the customers. As of 30 June 2016 and 31 December 2015 losses on credit related commitments are not considered probable and cannot be reliably measured.

26 Contingencies and Commitments (Continued)

Loans managed by the Bank for third parties

<i>In thousands of Mongolian Tugriks</i>	30 June 2016 (unaudited)	31 December 2015
Mongolia Mortgage Corporation Loans	523,814,100	459,739,413
Solar Energy Loan from Ministry of Energy	70,096	70,131
Other	14,503	91,936
Total	523,898,699	459,901,480

Terms of the loans managed by the Bank for third parties are provided in the annual financial statements of the Bank for the year ended 31 December 2015.

Mongolian Mortgage Corporation LLC (MIK) securitization transaction. Since the fourth quarter of 2013, the Bank participated in nine MIK securitization transactions; one in 2013, two in 2014 four in 2015, and two in first half of 2016. A total of MNT 582,282,900 thousand of the 8% Mortgage loans was sold to MIK SPC1, MIK SPC2, MIK SPC3, MIK SPC4, MIK SPC5, MIK SPC6, MIK SPC7, MIK SPC8 and MIK SPC9 special purpose companies wholly owned by the Mongolian Mortgage Corporation LLC ("MIK") for which it received residential mortgage-backed securities (RMBS) amounting to MNT 524,054,610 thousand Senior RMBS notes bearing interest at 4.5% p.a. and MNT 58,228,290 thousand Junior RMBS notes bearing interest at 10.5% p.a. Please refer to Note 4 of the annual financial statements. The loans have been purchased by MIK-SPC on a non-recourse basis. The principal of the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. The bank has been appointed as the Servicer of the respective loans sold, and receives a service fee of 2.5% on amount collected for performing this service.

Assets pledged and restricted. Mandatory cash balances with the Bank of Mongolia in the amount of MNT 401,953,956 thousand (31 December 2015: MNT 335,259,682 thousand) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations.

27 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Bank's parent company, Sawada Holdings Co. Ltd., its subsidiaries, and shareholders exercising significant influence over the Bank are disclosed in Note 25 in the annual financial statements for the year ended 31 December 2015.

Balances and transactions with the Parent, its subsidiaries, shareholders exercising significant influence over the Bank's operations, and the Bank's associates, are disclosed below. Other significant shareholders represent shareholders exercising significant influence, while other related parties represent entities controlled by parent company and other significant shareholders.

27 Related Party Transactions (Continued)

At 30 June 2016, the outstanding balances with related parties were, as follows:

<i>In thousands of Mongolian Tugriks (unaudited)</i>	Parent company	Other significant share- holders	Other related parties	Key manage- ment personnel	Asso- ciates
Gross amount of loans and advances to customers (contractual interest rate: 2.4% -24%p.a.)	-	1,694,878	20,193,342	1,423,432	-
Investment in associates	-	-	-	-	551,878
Customer accounts (contractual interest rate: 0.0%-18%p.a.)	36,992,481	205,416	36,018,421	5,017,361	3,001,343
Other borrowed funds (contractual interest rate: 5.35%-10.37% p.a.)	33,363,010	38,995,471	39,250,600	-	-
Subordinated debt (contractual interest rate: 8.02%-11.37% p.a.)	-	117,751,800	19,625,300	-	-

At 31 December 2015, the outstanding balances with related parties were, as follows:

<i>In thousands of Mongolian Tugriks</i>	Parent company	Other significant share- holders	Other related parties	Key manage- ment personnel	Asso- ciates
Gross amount of loans and advances to customers (contractual interest rate: 6.0% -24.0% p.a.)	-	5,826,347	27,672,879	2,418,752	-
Investment in associates	-	-	-	-	551,878
Customer accounts (contractual interest rate: 0.0% -16.6% p.a.)	33,421,015	2,329,582	76,322,173	4,766,856	1,801,827
Other borrowed funds (contractual interest rate: 5.37%-10.37% p.a.)	33,931,660	51,576,123	99,799,000	-	-
Subordinated debt (contractual interest rate: 8.02%-11.37% p.a.)	-	119,758,800	19,959,800	-	-

Other related parties include entities under significant influence by management of the parent company.

During six months of 2016, the Bank has made prepayments for purchase of equipment from other related party of MNT 15,466,529 thousand, which contributed to significant increase in the amount of property and equipment balance as of 30 June 2015 (Note 13). This transaction is made at market terms and in accordance with the Bank's regular process for selection of vendors.

In addition to the above balances, the Bank has outstanding balances with its associate Mongolian Mortgage Corporation, which are outlined below.

The outstanding balance of mortgage loan pools sold with recourse to an associate Mongolian Mortgage Corporation in the amount of MNT 48,343 thousand (31 December 2015: MNT 53,078 thousand) as of 30 June 2016 is included in loans and advances to customers (Note 9), as criteria for derecognition of these loans are not met. In addition to these amounts, the outstanding balance of mortgage loan pools sold without recourse to Mongolian Mortgage Corporation's subsidiary MIK-SPC, as of 30 June 2016 amounted to MNT 523,814,100 thousand (31 December 2015: MNT 459,739,412 thousand). These amounts represent off-balance sheet items (Note 26). As of 30 June 2016, the Bank also has investments held to maturity of MNT 58,532,256 thousand (31 December 2015: 50,306,287 thousands) which represent Junior RMBS tranches.

In addition, information on balances related to Senior RMBS tranches is disclosed in Note 4 in the annual financial statements of the Bank for the year ended 31 December 2015.

27 Related Party Transactions (Continued)

Interest income recognized in relation to Junior and Senior RMBS tranches during the first half of 2016 amounted to MNT 3,362,512 thousand (30 June 2015: MNT 2,054,437 thousand) and are presented in tables below. Fee and commission income arising on servicing sold 8% mortgage loans through MIK securitization transactions amount to MNT 652,334 thousand (30 June 2015: MNT 401,272 thousand) and are presented below.

The Bank has not recognized any provision for impairment on loans issued to its related parties as of 30 June 2016 and 31 December 2015, as management believes that such provision is not necessary.

The income and expense items with related parties for the six-month period ended 30 June 2016 were, as follows:

<i>In thousands of Mongolian Tugriks</i>	Parent company	Other significant shareholders	Other related parties	Key management personnel	Associates
Interest income	-	120,950	3,953,745	57,038	3,362,512
Interest expense	(3,074,812)	(6,411,624)	(5,226,160)	(227,616)	(202,290)
Fee and commission income	-	-	-	-	652,334
Foreign exchange translation gains less losses	1,169,934	2,680,434	1,897,336	49,277	-
Administrative and other operating expenses	-	-	-	(2,743,096)	-

The income and expense items with related parties for the six-month period ended 30 June 2015 were, as follows:

<i>In thousands of Mongolian Tugriks</i>	Parent company	Other significant shareholders	Other related parties	Key management personnel	Associates
Interest income	-	378,566	923,574	46,500	2,054,437
Interest expense	(1,790,533)	(7,147,141)	(2,188,429)	(114,742)	(133,879)
Fee and commission income	-	-	-	-	401,272
Foreign exchange translation gains less losses	(2,004,282)	(6,694,411)	(4,022,788)	(33,306)	-
Administrative and other operating expenses	-	-	-	(2,502,278)	-

Aggregate amounts lent to and repaid by related parties the six-month period ended 30 June 2016 were, as follows:

<i>In thousands of Mongolian Tugriks</i>	Parent company	Other significant shareholders	Other related parties	Key management personnel	Associates
Amounts lent to related parties during the period	-	19,384,000	78,883,002	150,000	-
Amounts repaid by related parties during the period	-	(23,515,469)	(86,362,538)	(99,007)	-

Aggregate amounts lent to and repaid by related parties for the year ended 2016 and 2015 do not include foreign exchange differences arising on these loans.

27 Related Party Transactions (Continued)

The outstanding credit related commitments balances represented only by the balances of other significant shareholders were, as follows:

<i>In thousands of Mongolian Tugriks</i>	30 June 2016 (unaudited)	31 December 2015
Irrevocable undrawn credit lines	126,000	71,256
Guarantees issued	1,042,264	1,100,192
Import letters of credit	256,685	612,270
Total	1,424,949	1,783,718

Key Board of Directors and management compensation is presented below:

<i>In thousands of Mongolian Tugriks</i>	Six-Month Period Ended 30 June 2016 (unaudited)	Six-Month Period Ended 30 June 2015 (unaudited)
<i>Short-term benefits:</i>		
- Salaries and Bonuses	2,274,025	2,239,583
- Fees paid to Board of Directors	419,375	355,024
- Social security contributions	280,040	270,089
- Share appreciation rights	139,695	7,421
Total	3,113,135	2,872,117

Short-term bonuses fall due within twelve months after the end of the period, in which management rendered the related services.

28 Seasonality of Operations

The Bank's operations have some seasonality, but it does not have a material effect on the Bank's overall performance. In rural areas, herders tend to borrow in the first and third quarters of the year to meet household needs. The seasonal sale of cashmere in the second quarter and the sale of meat in the fourth quarter permit repayments of these loans, reducing loan demand and increasing deposits.

29 Events after Balance Sheet Date

Borrowing from international financial institutions. On 20 July 2016, the Bank entered into a loan agreement with IFC for an amount of USO 40 million at 6mLIBOR+5.5% p.a. with maturity of 5 years.

As per the borrowing agreement signed with EBRO on 20 November 2015, the Bank received USO 10 million on 30 August 2016 and USO 5 million on 31 August 2016, respectively, at interest rate of 6mLIBOR+5.5% p.a with maturity of 4 to 5 years.

Policy rate and Tugrik depreciation. On 18 August 2016, Bank of Mongolia has increased policy rate from 10.5% to 15%. Further, MNT depreciated during July and August 2016 and official foreign exchange rate was 1 USO= MNT 2,213.18 as of 5 September 2016.

Operating environment of the Bank. The country was downgraded from B2 to B3 by Moody's rating agency on 26 August 2016 and downgraded from "B/B" with "stable" outlook to "B-" with "stable" outlook by Standard and Poor's rating Services on 19 August 2016.

Management is not aware of other events that occurred after the end of the reporting period until 5 September 2016, which would have any impact on this condensed interim financial information.