Transport and Development Bank LLC

Financial Statements

31 December 2018

(With Independent Auditors' Report Thereon)

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Transport and Development Bank LLC

Bank Information

Registered address	Transport and Development Bank LLC Shangri-La office, 15th floor, Olympic Street, Sukhbaatar district, 1st khoroo, Ulaanbaatar, Mongolia
Shareholders	Temuujin. M (71.79%) Oyungerel. D (8.65%) Radnaabazar. P (14.33%) Infrastructure LLC (5.23%)
Board of Directors	Bazarmaa. R Otgonbayar. M Achit-Erdene. D Dayanbilguun. D Tumenjargal. D
Chief Executive Officer	Otgonbayar. M
Chief Finance Officer	Sainbileg. Ch
Auditor	KPMG Audit LLC #602, Blue Sky Tower, Peace Avenue 17, 1st khoroo, Sukhbaatar District, Ulaanbaatar 14240, Mongolia

Management's Responsibility Statement

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

The financial statements of Transport and Development Bank LLC ("the Bank") have been prepared to comply with International Financial Reporting Standards. The management is responsible for ensuring that this financial statements present fairly the state of affairs of the Bank as at 31 December 2018 and the financial performance and cash flows for the year then ended on that date.

The management has responsibility for ensuring that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank and which enable them to ensure that the financial statements comply with the requirements set out in note 2 to note 7 thereto.

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

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

The financial statements of the Bank for the year ended 31 December 2018 were authorized for issuance by the Bank's management.

Otgonbayar. M
Chief Executive Officer

МОНГОЛ • ТЭЭВЭР ХӨГЖЛИЙН БАНК
2078201

Sainbileg. Ch
Chief Finance Officer

Ulaanbaatar,
Mongolia

Date: 15 March 2019

Independent Auditors’ Report

Opinion

We have audited the accompanying financial statements of Transport and Development Bank LLC (“the Bank”), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (“IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

KPMG

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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LLC
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ТТ33977 + 5543495

KPMG Audit LLC

KPMG Audit LLC
Ulaanbaatar, Mongolia
15 March 2019

This report is effective as at 15 March 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholders of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018

(In thousands of MNT)	**Notes**	**2018**	**2017**
Interest income from financial assets using the effective interest method[1]	*8*	27,695,862	3,605,513
Interest and similar expense	*9*	(15,999,056)	(926,055)
Net interest income		**11,696,806**	**2,679,458**
Fee and commission income	*10*	768,056	94,703
Fee and commission expense	*10*	(266,369)	(131,864)
Net fee and commission income /(expense)		**501,687**	**(37,161)**
Net trading income / (expense)	*11*	563,078	(102,884)
Revenue		**12,761,571**	**2,539,413**
Other income	*12*	117,667	892,212
Personnel expenses	*13*	(2,747,623)	(933,011)
Operating lease expenses		(850,202)	(238,322)
Depreciation and amortization	*21, 22*	(676,234)	(217,987)
Other expenses	*12*	(1,577,547)	(649,746)
Non-operating expenses	*14*	(238,166)	(190,855)
Impairment (loss) / reversal	*15*	(1,555,979)	993,413
Profit before tax		**5,233,487**	**2,195,117**
Income tax expense	*16*	(1,408,139)	(245,144)
Net profit for the year		**3,825,348**	**1,949,973**
Other comprehensive income			
Other comprehensive income transferred to profit or loss if specific conditions are met:			
Changes in the fair value of financial assets at fair value through other comprehensive income		64,985	n/a
Total comprehensive income for the year		**3,890,333**	**1,949,973**

[1] Presentation adjusted (see Note 5 Changes in accounting policies).

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

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Financial Position
As at 31 December 2018

(In thousands of MNT)	**Notes**	**31 Dec 2018**	**1 Jan 2018**[1]	**31 Dec 2017**[2]
Assets				
Cash and balances with Bank of Mongolia	*17*	118,463,789	91,925,758	91,943,312
Due from banks	*18*	60,981,772	431,301	431,350
Financial investments - available-for-sale	*19*	n/a	n/a	36,950,057
Financial assets at fair value	*19*	58,661	9,140	n/a
Financial assets at fair value through other comprehensive income	*19*	29,389,823	36,940,917	n/a
Loans and advances to customers	*20*	289,072,998	70,403,384	70,483,771
Property and equipment	*21*	2,181,152	1,734,329	1,734,329
Intangible assets	*22*	636,569	540,031	540,031
Other assets	*23*	1,057,365	963,714	963,714
Total assets		**501,842,129**	**202,948,574**	**203,046,564**
Equity and Liabilities				
Liabilities				
Deposits from financial institutions	*24*	212,729,196	109,911,583	109,911,583
Deposits from customers	*25*	147,867,031	254,343	254,343
Repurchase agreements	*26*	29,603,979	36,940,917	36,940,917
Other liabilities	*27*	34,058,596	10,287,878	10,287,878
Income tax payable		367,746	228,605	228,605
Total liabilities		**424,626,548**	**157,623,326**	**157,623,326**
Equity				
Share capital	*28*	78,000,000	50,000,000	50,000,000
Reserves	*28*	93,503	28,518	28,518
Accumulated losses		(877,922)	(4,703,270)	(4,605,280)
Total equity		**77,215,581**	**45,325,248**	**45,423,238**
Total equity and liabilities		**501,842,129**	**202,948,574**	**203,046,564**

[1] The statement of financial position as at 1 January 2018 has been prepared in accordance with IFRS 9 and IFRS 15 for the transition from 31 December 2017 to 1 January 2018.

[2] As reported under IAS 39.

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

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Changes in Equity
For the year ended 31 December 2018

(In thousands of MNT)	**Share capital (Note 28)**	**Fair value reserve**	**Other reserves**	**Accumulated losses**	**Total equity**
Balance at 1 January 2017	16,000,000	-	44,300	(6,564,393)	9,479,907
Net profit for the year	-	-	-	1,949,973	1,949,973
Transactions with owners, recorded directly in equity					
Contribution from shareholders	34,000,000	-	-	-	34,000,000
Other movements	-	-	(15,782)	9,140	(6,642)
Balance at 31 December 2017	**50,000,000**	**-**	**28,518**	**(4,605,280)**	**45,423,238**
Balance at 31 December 2017	50,000,000	-	28,518	(4,605,280)	45,423,238
Change in accounting policy IFRS 9[1]	-	-	-	(97,990)	(97,990)
Change in accounting policy IFRS 15[2]	-	-	-	-	-
Restated balance at 1 January 2018	**50,000,000**	**-**	**28,518**	**(4,703,270)**	**45,325,248**
Total comprehensive income					
Net profit for the year	-	-	-	3,825,348	3,825,348
Other comprehensive income:					
Debt investments at FVOCI – net change in fair value	-	64,985	-	-	64,985
Transactions with owners, recorded directly in equity					
Contribution from shareholders	28,000,000	-	-	-	28,000,000
Balance at 31 December 2018	**78,000,000**	**64,985**	**28,518**	**(877,922)**	**77,215,581**

[1] See Note 6 "Key impacts of the implementation of IFRS 9"

[2] See Note 3 "New and amended standards issued by the International Accounting Standards Board (IASB) which apply in the current financial year"

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

Statement of Cash Flows
For the year ended 31 December 2018

(In thousands of MNT)	***Notes***	**2018**	**2017**
Cash flows from operating activities			
Profit for the year		3,825,348	1,949,973
Adjustment for:		-	
Depreciation of property and equipment	*21*	396,997	91,749
Amortisation of intangible assets	*22*	279,237	126,238
Write-off of property and equipment	*12, 21*	1,199	5,955
Write-off of intangible assets	*12, 22*	4,543	-
Loss on disposal of property and equipment, net	*12, 21*	127,143	235,769
Gain on disposal of foreclosed assets	*12*	-	(531,459)
Net interest income	*8, 9*	(11,696,806)	(2,679,458)
Impairment losses / (reversal)	*15*	1,496,753	(993,413)
Income tax expense	*16*	1,408,139	245,144
Changes in assets and liabilities:			
Loans and advances to customers		(219,204,847)	(61,845,359)
Reserves with Bank of Mongolia	*29*	(19,234,307)	(6,948,953)
BOM treasury bills held on behalf of a third party	*17, 29*	(20,740,600)	(10,000,000)
Other assets		(511,812)	(557,973)
Deposits from banks	*24*	102,817,613	109,911,583
Repurchase agreements	*26*	(7,336,938)	36,940,917
Deposits from customers	*25*	147,612,688	45,369
Other liabilities		20,849,230	10,019,294
Interest received		23,735,574	3,167,430
Interest paid		(10,057,672)	(750,202)
Income taxes paid		(1,268,998)	(21,685)
Net cash provided by operating activities		**12,502,484**	**78,410,919**

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

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Cash Flows, Continued
For the year ended 31 December 2018

(In thousands of MNT)	***Notes***	**2018**	**2017**
Cash flows from investing activities			
Acquisition of property and equipment	*21*	(810,829)	(1,921,818)
Acquisition of intangible assets	*22*	(380,318)	(658,505)
Proceeds from disposal of property and equipment	*21*	256,818	591,280
Proceeds from disposal of foreclosed assets		-	1,712,784
Acquisition of investment securities	*19*	-	(36,940,917)
Proceeds from redemption of investment securities	*19*	7,504,159	-
Net cash provided by / (used in) investing activities		**6,569,830**	**(37,217,176)**
Cash flows from financing activities		-	
Proceeds from issuance of shares	28	28,000,000	34,000,000
Net cash provided by financing activities		**28,000,000**	**34,000,000**
Net change in cash and cash equivalents		**47,072,314**	**75,193,743**
Cash and cash equivalents at 1 January before change in accounting policy IFRS 9	*29*	75,401,191	207,448
Change in accounting policy IFRS 9		(17,603)	n.a.
Cash and cash equivalents at 1 January after change in accounting policy IFRS 9	*29*	75,383,588	n.a.
Effect of foreign exchange rate fluctuations on cash held		41,281	-
Cash and cash equivalents at 31 December	*29*	**122,497,183**	**75,401,191**

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

1. Reporting entity

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

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

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

New shareholders acquired the Bank from the previous shareholders on 27 October 2016. Since March 2017, the Bank has started to comply with commercial prudential ratios set by the BOM and was given permission to perform ordinary and additional banking activities pursuant to Decree No. A-176 issued by the Governor of the Bank of Mongolia on 19 June 2017. In addition, the Bank obtained approvals for permissions for the remaining restricted activities by Decree No. A-54 issued by the Governor of the Bank of Mongolia on 5 March 2018.

In December 2018, Mr. Bold.L sold his shares to Mr. Radnaabazar.P, along with 100% ownership in Infrastructure LLC. In December 2018, Mr. Radnaabazar.P invested an additional MNT 6,000,000 thousand to the Bank. Since 2016, the new shareholders have recapitalized the Bank through capital increases of MNT 34,000,000 thousand and MNT 28,000,000 thousand in 2017 and 2018, respectively.

The Bank is owned by three individuals and one company. The ultimate controlling party is an individual, Mr. Temuujin.M.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards ("IFRS"). This is the first set of the Bank's annual financial statements where IFRS 15 and IFRS 9 have been applied.

Certain corresponding figures have been reclassified to conform to the current year's presentation.

Changes in accounting policies are described in Note 5.

(b) Basis of measurement

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

2. Basis of preparation, continued

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

The significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described in Note 5.

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

(i) Assumptions and estimation uncertainties

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

(a) Interest income recognition – Note 7 (j);
(b) Classification of financial assets – Note 7 (b)(ii);
(c) Impairment of financial and non-financial assets – Notes 7 (b)(vi) and 7 (g);
(d) Useful lives of property and equipment – Note 7(e).

(ii) Impairment allowances on financial assets

IFRS 9 establishes three stages in the approach to measuring and recognizing expected credit losses. The Bank implemented these three-stage expected credit loss impairment models as at 1 January 2018 which involved a significant degree of management judgement. The impairment methodology for loans and advances results in the recognition of allowances measured at an amount equal to 12-month expected credit losses (stage 1); allowances measured at an amount equal to lifetime expected credit losses for financial assets for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets (stage 2); and financial assets that are credit-impaired (stage 3). The detailed approach for each category is further explained in Note 5 and the reconciliation of the impairment allowances determined in accordance with IAS 39 as at 31 December 2017 to the impairment allowances in accordance with IFRS 9 as at 1 January 2018 is explained in Note 6 "Key impacts of the implementation of IFRS 9".

2. Basis of preparation, continued

(d) Use of estimates and judgments, continued

(iii) Fair value measurement

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

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

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

(iv) Going concern

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

3. New and amended standards issued by the International Accounting Standards Board (IASB) which apply in the current financial year

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 became effective on 1 January 2018 and the Bank applies the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening retained earnings as per 1 January 2018, with no restatement of comparative periods.

The adoption of IFRS 9 Financial Instruments resulted in changes in accounting policies. The new accounting policies are set out in Note 5 "Changes in accounting policies". For a reconciliation between the statement of financial position as per 31 December 2017 and per 1 January 2018, refer to Note 6 "Key impacts of the implementation of IFRS 9". The Bank continues to test and refine the new accounting processes, internal controls and governance framework as a consequence of the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

The Bank applies IFRS 15 as at 1 January 2018. IFRS 15 replaces IAS 11 and 18, IFRIC 13, 15 and 18 and SIC-31 and provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard does not apply to financial instruments, insurance contracts or lease contracts.

3. New and amended standards issued by the International Accounting Standards Board (IASB) which apply in the current financial year, continued

IFRS 15 Revenue from Contracts with Customers, continued

IFRS 15 establishes a single and comprehensive framework which sets out how much revenue is to be recognized, and when. The core principle of the standard is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring promised services to a customer.

The new standard involves a five-step approach:

Step 1: Identify the contract(s) with customers
Step 2: Identify the separate performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to separate performance obligations
Step 5: Recognize revenue when (or as) each performance obligation is satisfied

Under the Bank's IFRS 15 impact analysis, no significant matters were identified that caused a difference between the previous accounting practice and the current requirements of IFRS 15.

4. New standards issued by the International Accounting Standards Board (IASB) which do not yet apply in the current financial year

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 "Leases" with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 replaces IAS 17 and the related interpretations IFRIC 4, SIC-15 and SIC-27, and it results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 "Leases".

The Bank will recognise a "right of use" asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability will be measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17.

The implementation of IFRS 16 consists of a detailed analysis of the Bank's lease contracts. The Bank plans to apply the simplified approach which retains the prior period figures as reported under the previous standard and recognises the cumulative effect of IFRS 16 as an increase to the opening balance of equity as at 1 January 2019.

Please refer to the table below for the preliminary assessment of the impact on each financial statement line item on initial application date 1 January 2019:

(In thousands of MNT)	**31 Dec 2018**	**1 Jan 2019**
Right-of-use asset – net book value	-	2,718,766
Lease liability	-	2,639,577
Retained earnings (opening balance)	-	79,189

The above assessments were mainly focused on the three lease agreements where the Bank is acting as a lessee as at 31 December 2018.

4. New standards issued by the International Accounting Standards Board (IASB) which do not yet apply in the current financial year, continued

IFRS 17 Insurance contracts

In May 2017, the IASB issued "IFRS 17 Insurance Contracts" with an effective date of annual periods beginning on or after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The Bank is currently assessing the impact of this standard.

Other amendments to IFRS

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards.*

5. Changes in accounting policies

IFRS 9 Financial Instruments

Classification

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Bank's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments). The impact of IFRS 9 on the classification financial assets is set out below.

From 1 January 2018, the Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows:

5. Changes in accounting policies, continued

IFRS 9 Financial Instruments, continued

Classification, continued

1. Business model assessment considers how the business is managed and how the business is seen from a strategic point of view. Also the frequency and size of sales are taken into account. This assessment results in a classification:

   - Hold to collect: where the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; or
   - Hold to collect and sell: where the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; or
   - Other business model.

2. Contractual cash flow assessment: an assessment whether the cash flows of the financial assets are solely payment of principal and interest (SPPI test).

The business model assessment can be made on a portfolio basis, whereas the contractual cash flow assessment is assessed for each individual financial asset. The Bank only reclassifies debt instruments when the business model for managing those assets changes.

A debt instrument that is held within a business model "hold to collect" and meets the SPPI test is measured at amortized cost unless the asset is designated at fair value through profit or loss. A debt instrument that is held within a business model "hold to collect and sell" and meets the SPPI test is measured at fair value with fair value adjustments recognized in other comprehensive income unless the asset is designated at fair value through profit or loss. All other debt instruments are mandatorily measured at fair value through profit or loss.

All equity instruments in the scope of IFRS 9 are measured at fair value with fair value adjustments recognized in profit or loss or in other comprehensive income. The option to designate an equity instrument at fair value through other comprehensive income is available at initial recognition and is irrevocable.

Measurement

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at fair value through profit or loss are expensed in profit or loss.

a. Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Bank classifies its debt instruments:

- **Amortized cost (AC):** Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost and presented as "Loans and advances to customers". Other examples of financial instruments that can be classified and subsequently recorded at amortized cost under IFRS 9 are accounts receivable without an essential element of financing, investments in government bonds not intended for trading and investments in term deposits.

5. Changes in accounting policies, continued

IFRS 9 Financial Instruments, continued

Measurement, continued

a. Debt instruments, continued

Interest income from these financial assets is included in net interest income using the effective interest rate method. Financial assets can be carried at initial amount, if the discount effect is immaterial. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in gains/(losses) arising from the derecognition of financial assets measured at amortized cost.

- **Fair value through other comprehensive income (FVOCI):** Debt instruments that are held for collection of contractual cash flows and to sell, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income and presented as "Financial assets at fair value through other comprehensive income". Examples of financial instruments that can be classified and accounted as FVOCI are investments in government bonds in which the investment period may be shorter than the maturity period, investments in corporate bonds, where the investment period is likely to be shorter than the maturity. Movements in the carrying amount are recorded through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When a debt financial instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest from these financial assets is included in net interest income using the effective interest rate method.

- **Fair value through profit or loss (FVTPL):**
  a) Debt instruments that do not meet the criteria for amortized cost or FVOCI and are mandatorily measured at FVTPL and presented as "Financial assets mandatorily at fair value"; b) Debt instruments that are irrevocably included as "Financial assets designated at fair value" at inception if the use of the designation removes or significantly reduces an accounting mismatch;
  c) Financial assets that are held for trading.
  A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net within gains/(losses) on financial assets and liabilities at fair value through profit or loss in the period in which it arises.

b. Equity instruments

All investments in equity instruments are measured at fair value. The default method provides that all changes in fair value are recognized in the income statement.

However, the Bank is eligible to select without right for subsequent reclassification, to irrevocably designate an equity instrument at FVOCI, when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. This option is available for each individual investment.

The Bank's policy is to designate an equity instrument at FVOCI, when those investments are held for purposes other than to generate investment returns. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Bank's right to receive payment is established.

5. Changes in accounting policies, continued

IFRS 9 Financial Instruments, continued

Impairment of financial assets

The Bank recognizes the estimated provision for Expected Credit Loss (ECL) for financial assets measured at amortized cost and financial assets measured at FVOCI. The Bank accounts for the provision at the end of each reporting period.

The Bank estimates ECL on the financial asset reflecting:

- An unbiased and weighted amount, determined by assessing the range of possible outcomes;
- Time value for money; and
- Reasonable and acceptable information on past events, current conditions and projected future economic conditions, available at the balance sheet date without undue cost or effort.

The Bank uses a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not-credit impaired on initial recognition is classified in "Stage 1" and its credit risk continuously monitored by the Bank. The losses on these instruments are recognized as a result of default, which are possible within 12 months after the reporting date.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit impaired. For these instruments expected credit losses are recognized for the life of the asset, but the interest income is still calculated on gross book value. For financial assets overdue for more than 30 days, there is a rebuttable assumption that the credit risk for a financial asset has increased significantly since the initial recognition. These assets migrate to Stage 2 if the Bank does not have reasonable and verifiable information indicating that the credit risk has not increased.
- If the financial instrument is credit impaired, the financial instrument is then moved to "Stage 3". For these instruments, expected credit losses are recognized for the life of the asset and the interest income is calculated on the book value. The Bank applies the assumption that the default occurs no later than when the financial asset is 90 days overdue and migrate to Stage 3, unless the Bank has sound and verified information demonstrating that the use of the default criteria providing for a long delay payment is more appropriate.
- Purchased or originated credit-impaired assets (POCI) are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The ECL is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected Credit Losses are the discounted product of the Probability of Default (PD), Exposures at Default (EAD), and Loss Given Default (LGD).

PD: The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. Lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans.

Migration matrix is applied based on the data from external sources for calculation of PD coefficient for financial assets other than loans.

5. Changes in accounting policies, continued

IFRS 9 Financial Instruments, continued

Impairment of financial assets, continued

For such data, the Bank uses official data on the probability of change in credit ratings during a certain period of time based on historical data available on the official website of Standard and Poor's, Moody's or Fitch on an annual basis. In case of an absence of updated information as at the reporting date, the Bank applies the most recent available information.

In terms of loans, the Bank performs mapping for customers' internal ratings to external source ratings using the logic of the best rating equals to rating of the country. A significant increase in credit risk is evaluated based on the internal rating. Similar characteristics and evaluation criteria are applied as external ratings when performing internal ratings.

EAD: EAD is based on the amount the Bank expects to be owed at the time of default, over next 12 months or over the remaining lifetime. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

LGD: LGD represents the Bank's expectation of the extent of loss on defaulted exposures. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposures at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12 month LGD is the percentage of loss expected if the default occurs in the next 12 months, and Lifetime LGD is the percentage of loss expected if the default occurs over the remaining expected lifetime of the loan. LGD varies over time depending on the payments and the value of collateral. In the absence of collateral for the financial instrument and sufficient historical data on default, the Bank applies expert judgment. Depending on the circumstances and completeness of the data at the reporting date, the Bank applies a historical data approach or historical data from external sources to determine the LGD coefficient in stages.

- **Financial assets other than loans:** Depending on the circumstances and completeness of data as at a reporting date, the Bank applies one of the following approaches towards determination of LGD stepwise:
  a. Historical data approach;
  b. Approach based on historical data from external sources, such as Moody's, Standard & Poor's and Fitch, which provide data on recovery rates based on the data on similar portfolio; and
  c. IRB-Foundation approach, provided by Basel Committee.
- **Loans:** Depending on the circumstances and materiality of the account, the Bank applies one of the following approaches towards determination of LGD stepwise:
  a. Exposure more than 18% of total share capital or loans classified in Stage 3 due to credit deterioration (individually assessed loans) are assessed individually. The threshold of 18% of equity is set by the management based on their experience and the practice of other commercial banks and is updated regularly. Given the data quality, historical data and environment, management has decided to apply forward-looking information on haircut on the collateral component of LGD. Using different haircuts in collateral values considering varying economic conditions forms the base of the calculation of ECL. Collateral haircuts are set by the Bank's internal policy and updated regularly based on current and expected macroeconomic conditions. When calculating the LGD for individual assessment, the Bank uses collateral realization amounts considering the time to sell, costs of sale and changes in market value at the time of default.
  b. Exposure less than 18% of total share capital and loans classified in Stage 1 and 2 are collectively assessed.

5. Changes in accounting policies, continued

IFRS 9 Financial Instruments, continued

Hedge accounting

Hedge accounting is an option IFRS offers to mitigate profit or loss volatility caused by classification and measurement differences between granted loans and issued debt securities measured at amortized cost, assets measured at fair value through OCI (hedged items) and related hedging derivatives measured at fair value through profit or loss (hedging instruments). The assets and liabilities measured at amortized cost are revalued for the fair value changes due to the hedged risk.

For debt instruments measured at fair value through OCI the fair value changes due to the hedged risk on the assets are recognized in profit or loss. In a cash flow hedge the fair value changes of the derivative are recognized in the cash flow hedge reserve (effective part only).

IFRS 9 requires that there is an economic relationship between the hedged item and the hedging instrument for non-portfolio hedge accounting and does not permit voluntary de-designation of the hedge relationship. Furthermore, IFRS 9 replaces some of the arbitrary rules with more principle based requirements. Additionally IAS 39 lacks a specific accounting solution for hedge accounting with cross currency swaps (currency basis) used as hedging instruments, while IFRS 9 has this. IFRS 9 does not offer a solution for fair value hedge accounting for a portfolio hedge of interest rate risk.

Changes in presentation of interest income

As a result of a change in IAS 1 due to the implementation of IFRS 9, interest income on financial assets using the effective interest method is presented separately in the statement of profit or loss and other comprehensive income.

Interest income on financial assets using the effective interest method includes interest income on "Due from banks", "Loans and advances to customers" and "Financial assets at fair value through other comprehensive income".

6. Key impacts of the implementation of IFRS 9

The implementation of IFRS 9 resulted in an increase of the impairment allowance on financial assets by MNT 100,456 thousand before tax. The following table shows a reconciliation between the statement of financial position as reported as at 31 December 2017 under IAS 39 and the restated amounts as at 1 January 2018 under IFRS 9.

Statement of financial position

(In thousands of MNT)	**Measurement category IFRS 9**	**Measurement category IAS 39**	**31 Dec 2017 IAS 39**	**Reclassifi--cation**	**Remeasure-ment**	**1 Jan 2018 IFRS 9**
Assets						
Cash and balances with Bank of Mongolia			91,943,312	-	(17,554)	91,925,758
Cash on hand and current accounts at BOM	AC	AC	37,606,702	-	(16,243)	37,590,459
Overnight deposits	AC	AC	36,500,000	-	(1,311)	36,498,689
BOM treasury bills	FVOCI	AC	17,836,610	-	*-	17,836,610
Due from banks	AC	AC	431,350	-	(49)	431,301
Financial investments – available-for-sale	n/a	FVOCI	36,950,057	(36,950,057)	-	-
Financial assets at fair value	FVTPL	n/a	-	9,140	-	9,140
Financial assets at fair value through other comprehensive income (FVOCI)	FVOCI	n/a	-	36,940,917	*-	36,940,917
Loans and advances to customers	AC	AC	70,483,771	-	(80,387)	70,403,384
Property and equipment	n/a	n/a	1,734,329	-	-	1,734,329
Intangible assets	n/a	n/a	540,031	-	-	540,031
Other assets	n/a	n/a	963,714	-	-	963,714
Total assets			**203,046,564**	**-**	**(97,990)**	**202,948,574**
Equity and Liabilities						
Liabilities						
Deposits from banks	AC	AC	109,911,583	-	-	109,911,583
Deposits from customers	AC	AC	254,343	-	-	254,343
Repurchase agreements	AC	AC	36,940,917	-	-	36,940,917
Other liabilities	n/a	n/a	10,287,878	-	-	10,287,878
Income tax payable	n/a	n/a	228,605	-	-	228,605
Total liabilities			**157,623,326**	**-**	**-**	**157,623,326**
Equity						
Share capital			50,000,000	-	-	50,000,000
Other reserves			28,518	-	-	28,518
Accumulated losses			(4,605,280)	-	(97,990)	(4,703,270)
Total equity			**45,423,238**	**-**	**(97,990)**	**45,325,248**
Total equity and liabilities			**203,046,564**	**-**	**(97,990)**	**202,948,574**

* Loss allowance of MNT 2,465 thousand on the debt financial assets at FVOCI was not recognized against the debt instruments in the statement of financial position as the instruments are measured at fair value.

6. Key impacts of the implementation of IFRS 9, continued

Reconciliation of impairment allowances

The following table reconciles the impairment allowances determined in accordance with IAS 39 as at 31 December 2017 to the impairment allowances in accordance with IFRS 9 as at 1 January 2018. The IAS 39 impairment methodology was based on an "incurred loss" model, meaning that an allowance is determined when an instrument is credit-impaired. As well as the allowance for these credit impaired instruments, under IAS 39 also an allowance was recognized for assets that were in difficulties but not yet reported as such (incurred but not reported). The allowance for instruments that are credit impaired generally aligns with the stage 3 impairment category of IFRS 9. However, within the expected credit loss framework of IFRS 9 the entire portfolio of financial instruments is assigned an impairment allowance through the additions of the 12-month ECL category (stage 1) and the Lifetime ECL Non-Credit-Impaired (stage 2), generally leading to increases in overall allowances.

Reconciliation of impairment allowances under IAS 39 to expected credit losses under IFRS 9

(In thousands of MNT)	**Impairment allowance IAS 39 31 Dec 2017**	**Remeasure-ments**	**Impairment allowance IFRS 9 1 Jan 2018**
Loans and advances to customers	352,494	80,387	**432,881**
Cash and balances with Bank of Mongolia	-	17,554	**17,554**

(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers	432,881	-	-	**432,881**
Cash and balances with Bank of Mongolia	17,554	-	-	**17,554**

7. Significant accounting policies

The significant accounting policies applied by the Bank in preparation of its financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes explained in Note 3 and Note 5.

(a) Foreign currency transactions

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

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

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

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities

i. Recognition and initial measurement

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

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

ii. Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

ii. Classification, continued

Business model assessment, continued

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

ii. Classification, continued

Financial assets – Policy applicable before 1 January 2018

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

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

Financial liabilities

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

iii. Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

iii. Derecognition, continued

Financial assets, continued

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

Financial liabilities

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

iv. Modification of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different (referred to as "substantial modification"), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

iv. Modification of financial assets and financial liabilities, continued

Financial assets, continued

For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

iv. Modification of financial assets and financial liabilities, continued

Financial liabilities, continued

Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

v. Offsetting

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

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

vi. Impairment

Policy applicable from 1 January 2018

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- net investments in finance leases;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

vi. Impairment, continued

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and net investments in finance leases are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

vi. Impairment, continued

Credit-impaired financial assets, continued

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component*, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the statement of profit or loss and other comprehensive income. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

vi. Impairment, continued

Policy applicable before 1 January 2018

Objective evidence of impairment

At each reporting date, the Bank assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was "impaired" when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment.

The Bank considered evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and receivables and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial position and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

vi. Impairment, continued

Individual or collective assessment, continued

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

- *For assets measured at amortised cost:* if an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
- *For available-for-sale debt security:* if, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through other comprehensive income.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in other comprehensive income.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

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

7. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

vi. Impairment, continued

Write-off

The Bank wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Bank determined that there was no realistic prospect of recovery.

Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Before 1 January 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(c) Cash and cash equivalents

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

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

(d) Investment securities

Policy applicable from 1 January 2018

The “investment securities” caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

7. Significant accounting policies, continued

(d) Investment securities, continued

Policy applicable from 1 January 2018, continued

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevovable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable before 1 January 2018

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

i. Held-to-maturity

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

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

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

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

7. Significant accounting policies, continued

(d) Investment securities, continued

Policy applicable before 1 January 2018, continued

ii. Fair value through profit or loss

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

iii. Available-for-sale

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

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

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

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

(e) Property and equipment

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

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

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

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

7. Significant accounting policies, continued

(e) Property and equipment, continued

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

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

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

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

(f) Intangible assets

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

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

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

(g) Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating units exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

7. Significant accounting policies, continued

(g) Impairment of non-financial assets, continued

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

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

(h) Equity capital

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

(i) Employee benefits

(i) Short-term employee benefits

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

(ii) Social and health insurance

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

(j) Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

7. Significant accounting policies, continued

(j) Interest, continued

Policy applicable from 1 January 2018, continued

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The "gross carrying amount of a financial asset" measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

7. Significant accounting policies, continued

(j) Interest, continued

Policy applicable from 1 January 2018, continued

Presentation, continued

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

- financial liabilities measured at amortised cost;
- non-derivative financial liabilities measured at FVTPL; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Policy applicable before 1 January 2018

Effective interest rate

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

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

Presentation

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

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

7. Significant accounting policies, continued

(j) Interest, continued

Policy applicable before 1 January 2018, continued

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

(k) Fees and commissions

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

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

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

(l) Net trading income

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

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

Net income from other financial instruments at fair value through profit and loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated at FVTPL and, from 1 January 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(n) Leases

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

Operating leases

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

(o) Income taxes

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

7. Significant accounting policies, continued

(o) Income taxes, continued

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

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

(p) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

7. Significant accounting policies, continued

(p) Provisions, continued

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(q) Financial guarantees and loan commitments

"Financial guarantees" are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- *from 1 January 2018:* at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- *before 1 January 2018:* at the higher the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

For other loan commitments:

- *from 1 January 2018:* the Bank recognises a loss allowance;
- *before 1 January 2018:* the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(r) Related parties

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

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Bank or exercise significant influence over the Bank in making financial and operating policy decisions, or has joint control over the Bank;
ii. the Bank and the party are subject to common control;
iii. the party is a member of key management personnel of the Bank or the Bank's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;
iv. the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
v. the party is a post-employment benefit plan which is for the benefit of employees of the Bank or of any entity that is a related party of the Bank.

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

8. Interest income from financial assets using the effective interest method

(In thousands of MNT)	2018	2017
Loans and advances to customers	17,317,035	2,569,261
Financial assets at fair value through other comprehensive income	625,390	n.a
Balance with Bank of Mongolia	7,024,060	946,244
Due from banks	2,729,377	90,008
	27,695,862	**3,605,513**

MNT 3,022,497 thousand of interest income in Balance with Bank of Mongolia and of interest expense in other liabilities, relates to BOM securities held by the Bank on behalf of DIC, see Note 17 and Note 27.

9. Interest and similar expense

(In thousands of MNT)	2018	2017
Deposits from banks	8,793,642	761,018
Deposits from customers	3,647,561	1,994
Other liabilities	3,022,497	100,673
Repurchase agreements	535,356	62,370
	15,999,056	**926,055**

10. Net fee and commission income (expense)

(In thousands of MNT)	2018	2017
Fee and commission income		
Commission fees	388,892	9,133
Account service fees	198,123	57,604
Loan related service	152,319	27,375
Card service fees	8,164	-
Transaction fees	4,690	297
Other fees	15,868	294
	768,056	**94,703**
Fee and commission expense		
Bank service fees	(128,907)	(60,774)
Card service fees	(54,029)	(5,611)
Other fees	(83,433)	(65,479)
	(266,369)	**(131,864)**
	501,687	**(37,161)**

11. Net trading income (expense)

(In thousands of MNT)	2018	2017
Foreign exchange trading gains	1,440,078	295,272
Foreign exchange trading losses	(1,086,728)	(398,156)
Precious metals trading gains	277,559	-
Precious metals trading losses	(80,605)	-
Gains on disposal of securities	15,819	-
Losses on disposal of securities	(3,045)	-
	563,078	**(102,884)**

12. Other income and expenses

Other income are presented as follows:

(In thousands of MNT)	2018	2017
Foreign currency gains, net	-	5,877
Gains on disposal of foreclosed assets	-	531,459
Repayment of loans previously written-off	-	294,801
Promotion income from BOM	109,190	-
Other income	8,477	60,075
	117,667	**892,212**

Other expenses are presented as follows:

(In thousands of MNT)	2018	2017
Insurance	339,314	9,338
Professional service fees	303,523	75,858
Foreign currency losses, net	234,269	-
Loss on disposal of property and equipment, net	127,143	235,769
Advertising and marketing	124,733	15,828
Repairs and maintenance	94,670	90,525
Security	70,987	53,671
Labour safety	61,232	11,510
IT and communication	55,769	16,536
Utilities	36,742	32,522
Stationary	36,087	21,621
Transportation	13,447	6,892
Loss on write-off of intangible assets	4,543	-
Loss on write-off of property and equipment	1,199	5,955
Other expenses	73,889	73,721
	1,577,547	**649,746**

13. Personnel expenses

(In thousands of MNT)	2018	2017
Salaries	2,270,212	670,468
Contribution to social and health insurance	265,907	73,740
Business trips	104,125	136,311
Employees' trainings	68,204	9,882
Other employees' expenses	39,175	42,610
	2,747,623	**933,011**

14. Non-operating expenses

(In thousands of MNT)	2018	2017
Hospitality	136,788	41,150
Penalties	51	66,594
Others	101,327	83,111
	238,166	**190,855**

15. Impairment (loss) / reversal

(In thousands of MNT)	2018	2017
Loans and advances to customers (Note 20)	(1,431,743)	(325,677)
Reversal of credit risk allowance	-	1,301,954
Reversal of bad debt allowance	-	17,136
Other receivables	(25)	-
Due from banks (Note 18)	(20,997)	-
Financial assets at FVOCI	(64,985)	-
Reversal of cash and balances with Bank of Mongolia allowance (Note 17)	1,154	-
Cash and balances with Bank of Mongolia (Note 17)	(39,383)	-
	(1,555,979)	**993,413**

16. Income tax expense

(1) Income tax expense consists of the following:

(In thousands of MNT)	2018	2017
Income tax expense		
Current tax expense	1,408,139	245,144
	1,408,139	**245,144**

16. Income tax expense, continued

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

(In thousands of MNT)	**2018**	**2017**
Profit before tax	5,233,487	2,195,117
Tax at statutory rate of 10% and 25% (2017: 10%)	858,372	219,512
Effect of non-deductible expenses	704,956	135,044
Effect of income not subject to income tax	(155,189)	(82,428)
Recognition of previously unrecognized tax losses	-	(48,183)
Tax effect of special tax rate	-	21,199
	1,408,139	**245,144**

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

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

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

17. Cash and balances with Bank of Mongolia

(In thousands of MNT)	**31 Dec 2018**	**1 Jan 2018**	**31 Dec 2017**
Cash on hand	3,805,206	421,601	421,601
Current account with BOM (MNT) *	12,823,180	45,975,428	45,977,080
Current account with BOM (Foreign currency)*	30,995,791	27,692,119	27,708,021
Securities (up to 3 months) (**)	70,839,612	17,836,610	17,836,610
	118,463,789	**91,925,758**	**91,943,312**

(*) Current accounts with BOM are maintained in accordance with BOM regulations. The balances maintained with BOM are determined at not less than local currency 10.5% (2017: 12%), foreign currency 12% (2017: 12%) of customer deposits for a period of 2 weeks. As at 31 December 2018, the average reserve required by BOM for this period of 2 weeks was MNT 8,129,780 thousand (31 December 2017: MNT 2,524,852 thousand) for local currency and MNT 18,077,998 thousand (31 December 2017: MNT 4,448,619 thousand) for foreign currency maintained in current accounts with BOM.

(**)The Bank holds BOM securities in an amount of MNT 30,740,600 thousand on behalf of Deposit Insurance Corporation (DIC) as at 31 December 2018. These BOM securities are restricted under the contract with DIC, see details in Note 27.

17. Cash and balances with Bank of Mongolia, continued

A summary of the allowance for impairment losses on cash and balances with BOM is as follows:

	Amortized cost		
(In thousands of MNT)	**31 Dec 2018**	**1 Jan 2018**	**31 Dec 2017**
Current account with BOM (MNT)	439	1,652	-
Current account with BOM (Foreign currency)	55,344	15,902	-
	55,783	**17,554**	**-**

18. Due from banks

(In thousands of MNT)	**31 Dec 2018**	**1 Jan 2018**	**31 Dec 2017**
Current accounts at banks	669,054	431,301	431,350
Deposits at banks	55,311,417	-	-
Overnight loan	5,001,301	-	-
	60,981,772	**431,301**	**431,350**

A summary of the allowance for impairment losses on due from banks is as follows:

(In thousands of MNT)	**31 Dec 2018**	**1 Jan 2018**	**31 Dec 2017**
Amortized cost:			
Current accounts at banks	613	49	-
Deposits at banks	20,227	-	-
Overnight loan	206	-	-
	21,046	**49**	**-**

19. Financial investments

(In thousands of MNT)	**31 Dec 2018**	**1 Jan 2018**	**31 Dec 2017**
Financial Investments - available-for-sale:			
BOM treasury bills	n/a	n/a	36,940,917
Equity investments, at cost	n/a	n/a	9,140
Financial assets at fair value:			
Equity investments	58,661	9,140	n/a
Financial assets at fair value through other comprehensive income:			
BOM treasury bills	29,389,823	36,940,917	n/a
	29,448,484	**36,950,057**	**36,950,057**

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

20. Loans and advances to customers

(In thousands of MNT)	31 Dec 2018	1 Jan 2018	31 Dec 2017
Investment loans	201,751,762	36,769,612	36,769,612
Working capital loans	54,483,562	33,255,744	33,255,744
Mortgages	563,919	370,963	370,963
Loans pledged by deposits	32,571,191	-	-
Consumer loans	333,267	102,536	102,536
	289,703,701	**70,498,855**	**70,498,855**
Accrued interest receivables	1,275,201	337,410	337,410
Gross loans and advances to customers	**290,978,902**	**70,836,265**	**70,836,265**
Less: Allowances for loans and advances to customers	(1,905,904)	(432,881)	(352,494)
Net loans and advances to customers	**289,072,998**	**70,403,384**	**70,483,771**

A reconciliation of the allowance for impairment losses on loans and advances is as follows:

(In thousands of MNT)	2018	2017
Beginning balance	352,494	1,977,523
Impact of IFRS 9 (Note 6)	80,387	n.a
Beginning balance after impact of IFRS 9	**432,881**	n.a
Charge for the year (Note 15)	1,431,743	325,677
Reversal of impairment allowance	-	(1,301,954)
Written off	-	(638,415)
Effect of foreign currency movements	41,280	(10,337)
Ending balance	**1,905,904**	**352,494**

21. Property and equipment

Changes in property and equipment are as follows:

(In thousands of MNT)	**Leasehold improvements**	**Office furniture**	**Computer equipment**	**Vehicles**	**Total**
At 31 December 2018					
Cost:					
At 1 January 2018	-	558,639	289,603	1,196,423	2,044,665
Additions	418,575	364,142	175,687	271,000	1,229,404
Disposals	-	-	-	(407,778)	(407,778)
Write-off	-	(24,776)	(35,196)	-	(59,972)
Reclassification to other assets	-	-	(424)	-	(424)
At 31 December 2018	**418,575**	**898,005**	**429,670**	**1,059,645**	**2,805,895**
Accumulated depreciation:					
At 1 January 2018	-	196,213	96,623	17,500	310,336
Charge for the year	88,121	68,770	122,239	117,867	396,997
Disposals	-	-	-	(23,817)	(23,817)
Write-off	-	(24,625)	(34,148)	-	(58,773)
At 31 December 2018	**88,121**	**240,358**	**184,714**	**111,550**	**624,743**
Net carrying amount					
31 December 2018	**330,454**	**657,647**	**244,956**	**948,095**	**2,181,152**

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

22. Intangible assets

Changes in intangible assets are as follows:

(In thousands of MNT)	2018	2017
Software		
Acquisition cost:		
Beginning balance	666,073	27,804
Additions	380,318	658,505
Disposals	-	-
Write-off	(6,231)	(21,923)
Adjustment	-	1,687
Ending balance	**1,040,160**	**666,073**
Accumulated amortization:		
Beginning balance	126,042	20,040
Amortization charge	279,237	126,238
Write-off	(1,688)	(21,923)
Adjustment	-	1,687
Ending balance	**403,591**	**126,042**
Carrying amounts:		
Beginning balance	540,031	7,764
Ending balance	**636,569**	**540,031**

23. Other assets

(In thousands of MNT)	31 Dec 2018	31 Dec 2017
Prepayments and advances	961,653	939,017
Supplies and materials	95,473	24,697
Other assets	239	-
	1,057,365	**963,714**

24. Deposits from financial institutions

(In thousands of MNT)	31 Dec 2018	31 Dec 2017
Current accounts from banks and financial institutions	14,624,076	71,758,974
Deposit accounts from banks and financial institutions	198,105,120	30,152,609
Loans and advances	-	8,000,000
	212,729,196	**109,911,583**

Current accounts and deposit accounts from banks and financial institutions represent foreign currency and local currency accounts and deposits placed by local commercial banks.

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

25. Deposits from customers

(In thousands of MNT)	31 Dec 2018	31 Dec 2017
Government sector deposits:		
Current accounts	8,925,051	-
Time deposits	55,000,000	-
Private sector:		
Current accounts	1,203,232	196,406
Demand deposits	46	-
Time deposits	43,872,472	-
Individuals:		
Current accounts	305,606	28,841
Demand deposits	37,520,099	29,096
Time deposits	1,040,525	-
	147,867,031	**254,343**

26. Repurchase agreements

Contract party	Sold date	Maturity	Interest rate	31 Dec 2018 MNT'000
Domestic bank	19 Dec 2018	18 Feb 2019	11.9%	19,610,003
Domestic bank	31 Dec 2018	2 Jan 2019	11.0%	9,993,976
				29,603,979

Contract party	Sold date	Maturity	Interest rate	31 Dec 2017 MNT'000
Domestic bank	28 Dec 2017	2 Jan 2018	11.0%	11,981,945
Domestic bank	28 Dec 2017	2 Jan 2018	12.0%	24,958,972
				36,940,917

The Bank sold BOM bills with an agreement to repurchase them in the future. The repurchase agreement duration is 3 days to 2 months. The fair value of the bills approximate their carrying amount.

27. Other liabilities

(In thousands of MNT)	31 Dec 2018	31 Dec 2017
Payables to Deposit Insurance Corporation	30,740,600	10,000,000
Accrued interest payable	3,053,150	134,263
Other tax payables	11,326	108
Delay on clearing settlement	18,911	5,427
Deferred income	81,871	-
Other payables	152,738	148,080
	34,058,596	**10,287,878**

27. Other liabilities, continued

On 3 November 2017, the Bank concluded an investment intermediary contract with Deposit Insurance Corporation (DIC) for one year to purchase and hold BOM securities on its behalf. On 3 November 2018, the investment intermediary contract with DIC was extended for another one year. In accordance with the contract, the Bank receives commission fees based on a percentage of the purchased BOM securities.

The Bank bears the credit risk towards DIC under the investment intermediary contract, and has issued promissory notes to DIC to this effect. Should BOM not redeem the securities or related interest, the Bank is nevertheless required to repay the funds and interest to DIC.

28. Share capital and reserves

a. Share capital

	Number of ordinary shares		Value	
	31 Dec 2018	31 Dec 2017	31 Dec 2018 MNT'000	31 Dec 2017 MNT'000
Beginning balance	50,000,000	16,000,000	50,000,000	16,000,000
Issued during the year	28,000,000	34,000,000	28,000,000	34,000,000
Ending balance	**78,000,000**	**50,000,000**	**78,000,000**	**50,000,000**

At 31 December 2018, 78,000,000 shares were issued and outstanding out of a total 100,000,000 authorised shares. The Bank is ultimately controlled by an individual.

In accordance with BOM approvals dated 21 June 2018 and 13 December 2018, the Bank increased its share capital by MNT 22,000,000 thousand and MNT 6,000,000 thousand. As at 31 December 2018 and 31 December 2017, all issued shares were fully paid and have a par value of MNT 1,000.

b. Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

29. Cash and cash equivalents

(In thousands of MNT)	Note	31 Dec 2018	1 Jan 2018	31 Dec 2017
Cash and balances with BOM	*17*	47,624,177	74,089,148	74,106,702
Due from banks	*18*	60,981,772	431,301	431,350
BOM treasury bills	*17*	70,839,612	17,836,610	17,836,610
		179,445,561	**92,357,059**	**92,374,662**
Less: Minimum reserve with BOM not available to finance the Bank's day to day operations	*17*	(26,207,778)	(6,973,471)	(6,973,471)
Less: BOM treasury bills held on behalf of DIC	*17*	(30,740,600)	(10,000,000)	(10,000,000)
Total cash and cash equivalents for the statement of cash flows		**122,497,183**	**75,383,588**	**75,401,191**

29. Cash and cash equivalents, continued

Cash equivalents are liquid assets convertible into cash within 90 days and without restrictions. Restricted cash equivalents such as BOM treasury bills held on behalf of DIC are not included in cash and cash equivalents, see details in Note 17.

30. Fair value of financial instruments

Determination of fair value and fair value hierarchy

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

(In thousands of MNT)	**Level 1**	**Level 2**	**Level 3**	**Total**
At 31 December 2018				
Financial assets				
BOM treasury bills	-	70,839,612	-	70,839,612
Equity investments at fair value	49,536	-	9,125*	58,661
Financial assets at fair value through other comprehensive income	-	29,389,823	-	29,389,823
	49,536	**100,229,435**	**9,125**	**100,288,096**
At 31 December 2017				
Financial assets				
Financial investments – available-for-sale	-	36,940,917	9,140*	36,950,057
	-	**36,940,917**	**9,140**	**36,950,057**

* Unquoted equities comprise interests in the following unquoted entities: Mongolian Banking Association, Credit bureau, CGF LLC "Credit Guarantee Fund". There is no active market for these investments.

The fair values of level 2 financial instruments, which are short term, were measured by valuation techniques using market observable interest rates and similar market inputs.

Transfers between levels 1, 2 and 3

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

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

Unquoted available-for-sale equities

As at 31 December 2017, the impact of the reasonably possible change in the fair value assumptions for level 3 financial instruments was not quantified as the investment was recorded at cost since the fair value could not be reliably measured.

30. Fair value of financial instruments, continued

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

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

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

31. Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised in the statement of financial position, they do contain credit and performance risk and are therefore part of the overall risk of the Bank (Note 34.2).

(In thousands of MNT)	**31 Dec 2018**	**31 Dec 2017**
Contingent liabilities		
Performance and tender guarantees	1,008,732	-
Commitments		
Undrawn commitments to lend	420,180	500,000
	1,428,912	**500,000**

Contingent liabilities

Guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act. Guarantees carry the same risk as loans even though they are of a contingent nature.

Commitments

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

31. Contingent liabilities and commitments, continued

Commitments, continued

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

Capital commitments

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

Commitments to increase share capital

The Bank of Mongolia has set a minimum required share capital for all commercial banks of MNT 100 billion by 31 December 2021. The Bank is in the process of putting in plans and identifying sources of new capital in order to achieve the minimum required share capital levels until 2021. The Bank expects the shareholders to further increase its share capital in 2019.

Operating lease commitments - Bank as lessee

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

Minimum lease commitments that the Bank will pay under the non-cancellable operating lease agreements with initial terms of one year or more at 31 December 2018 and 31 December 2017 were as follows:

(In thousands of MNT)	**31 Dec 2018**	**31 Dec 2017**
Within a year	836,466	762,961
1-5 years	2,222,297	3,524,376
	3,058,763	**4,287,337**

Legal claims

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

Tax contingencies

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

31. Contingent liabilities and commitments, continued

Tax contingencies, continued

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

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

32. 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 34.3 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

(In thousands of MNT)	**Less than 12 months**	**More than 12 months**	**Total**
At 31 December 2018			
Financial assets			
Cash and balances with BOM	118,463,789	-	118,463,789
Due from banks	60,981,772	-	60,981,772
Financial assets at fair value	58,661	-	58,661
Financial assets at fair value through other comprehensive income	29,389,823	-	29,389,823
Loans and advances to customers	174,924,146	114,148,852	289,072,998
Other assets (*1)	239	-	239
	383,818,430	114,148,852	497,967,282
Financial liabilities			
Deposits from banks	(180,729,196)	(32,000,000)	(212,729,196)
Repurchase agreements	(29,603,979)	-	(29,603,979)
Deposits from customers	(147,864,521)	(2,510)	(147,867,031)
Other liabilities (*2)	(33,976,725)	-	(33,976,725)
	(392,174,421)	(32,002,510)	(424,176,931)
	(8,355,991)	**82,146,342**	**73,790,351**

32. Maturity analysis of assets and liabilities, continued

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

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

33. Related party disclosures

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

a) Related party balances

(In thousands of MNT)	**Relationship**	**31 Dec 2018**	**31 Dec 2017**
Loans and advances to customers:			
Loans	Others	4,893,100	4,534,434
Deposits and current accounts:			
Deposits	Shareholders	8,935	-
	Others	51,507	-
Current accounts	Shareholders	36,094	31,735
	Others	8,012	-
		4,997,648	**4,566,169**

33. Related party disclosures, continued

b) Related party transactions

(In thousands of MNT)	**Relationship**	**2018**	**2017**
Loans and advances to customers:			
Loans issued to	Others	(16,441,634)	(14,768,108)
Loans repaid from	Others	16,045,745	10,757,085
Interest income from loans issued	Others	785,242	486,187
Property and equipment:			
Property and equipment purchased	Shareholder	-	(52,459)

c) Compensation of key management personnel

(In thousands of MNT)	**2018**	**2017**
Short term employee benefits:		
Salaries	582,432	210,990
Contribution to social and health fund	73,676	23,209
	656,108	**234,199**

34. Risk management

34.1 Introduction

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

The risk management framework in place is to ensure that:

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

Risk management structure

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

34. Risk management, continued

34.1 Introduction, continued

Risk Management Committee ("RMC")

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

Audit Committee

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

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

Internal Audit

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

Assets and Liability Committee

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

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

Credit Committee

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

It is responsible for:

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

34. Risk management, continued

34.1 Introduction, continued

Compliance Division

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

Risk measurement and reporting system

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

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

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

Risk mitigation

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

34.2 Credit risk

Excessive Risk Concentration

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

34. Risk management, continued

34.2 Credit risk, continued

At the individual level, the BOM sets the standards of limitation on concentrations as follows:

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

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

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

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

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

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

34. Risk management, continued

34.2 Credit risk, continued

(In thousands of MNT)	Note	31 Dec 2018	31 Dec 2017
Cash and balances with BOM (excluding cash on hand)	17	114,658,583	91,521,711
Due from banks	18	60,981,772	431,350
Financial investments – available-for-sale	19	-	36,950,057
Financial assets at fair value through other comprehensive income	19	29,389,823	-
Loans and advances to customers	20	289,072,998	70,483,771
Total on balance sheet		**494,103,176**	**199,386,889**
Guarantees	31	1,008,732	-
Commitments	31	420,180	500,000
Total off balance sheet		**1,428,912**	**500,000**
Total credit risk exposure		**495,532,088**	**199,886,889**

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

Risk concentrations by industry

The table below shows the analysis per industry sector of the Bank's loans and advances to customers (Note 20) in gross amounts.

	31 Dec 2018		**31 Dec 2017**	
(In thousands of MNT)	**Gross maximum exposure**	**%**	**Gross maximum exposure**	**%**
Trading	62,784,960	21.6%	12,099,093	17.1%
Mining and exploration	49,328,640	17.0%	16,866,722	23.8%
Transportation	41,803,611	14.4%	2,504,448	3.5%
Leasing	33,538,327	11.5%	2,526,315	3.6%
Construction	24,907,655	8.6%	19,371,977	27.3%
Hotel & Restaurant	21,338,925	7.3%	10,902,739	15.4%
Finance lease	10,667,552	3.7%	-	0.0%
Real estate	9,304,961	3.2%	-	0.0%
Electricity & Power	3,501,875	1.2%	1,214,203	1.7%
Mortgage	566,525	0.2%	372,632	0.5%
Communication	20,042	0.0%	-	
Other	33,215,829	11.4%	4,978,136	7.0%
	290,978,902	**100.0%**	**70,836,265**	**100.0%**
Allowances	(1,905,904)		(352,494)	
	289,072,998		**70,483,771**	

34. Risk management, continued

34.2 Credit risk, continued

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms "Stage 1", "Stage 2" and "Stage 3" is included in Note 7 (b)(vi).

	2018				**2017**
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loan and advances to customers at amortized cost					
Grade AA	98,619,070	-	-	98,619,070	21,937,046
Grade A	50,786,621	2,973,997	-	53,760,618	19,953,682
Grade BB	72,361,293	-	-	72,361,293	23,388,578
Grade B	48,523,512	17,714,409	-	66,237,921	5,556,959
Loss allowance	(1,847,069)	(58,835)	-	(1,905,904)	(352,494)
Carrying amount	**268,443,427**	**20,629,571**	**-**	**289,072,998**	**70,483,771**

The following table sets out information about the overdue status of loans and advances to customers and the status of debt investment securities at FVOCI in Stage 1, 2 and 3.

	2018				**2017**
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loan and advances to customers at amortized cost – gross carrying amount					
Overdue < 30 days	268,443,427	20,629,571	-	289,072,998	70,483,771
Overdue > 30 days	-	-	-	-	-
Carrying amount	**268,443,427**	**20,629,571**	**-**	**289,072,998**	**70,483,771**
Debt investment securities at FVOCI (2017: available-for-sale)					
Grade B	100,229,435	-	-	100,229,435	54,777,527
Gross carrying amount	**100,229,435**	**-**	**-**	**100,229,435**	**54,777,527**
Loss allowance	(64,985)	-	-	(64,985)	-
Carrying amount – Fair value	**100,164,450**	**-**	**-**	**100,164,450**	**54,777,527**

34. Risk management, continued

34.2 Credit risk, continued

Credit quality analysis, continued

	2018				2017
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loan commitments					
Grade B	420,180	-	-	420,180	500,000
Loss allowance	-	-	-	-	-
Carrying amount (provision)	**-**	**-**	**-**	**-**	**-**
Financial guarantee contracts					
Grade B	1,008,732	-	-	1,008,732	-
Loss allowance	-	-	-	-	-
Carrying amount (provision)	**-**	**-**	**-**	**-**	**-**

The following table sets out the credit quality of trading debt securities. The analysis has been based on internal ratings.

(In thousands of MNT)	**Note**	**2018**	**2017**
BOM treasury bills			
Grade B	17, 19	100,229,435	54,777,527
		100,229,435	**54,777,527**

Collateral and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

	% of exposure that is subject to collateral requirements		
	31 Dec 2018	**31 Dec 2017**	**Principal type of collateral held**
Loans and advances to corporate customers			
Investment loans	100	100	Commercial property, floating charges over corporate assets
Working capital loans	100	100	Commercial property, floating charges over corporate assets
Credit lines	100	100	Commercial property, floating charges over corporate assets

34. Risk management, continued

34.2 Credit risk, continued

Collateral and other credit enhancements, continued

	% of exposure that is subject to collateral requirements		
	31 Dec 2018	**31 Dec 2017**	**Principal type of collateral held**
Loans and advances to retail customers			
Mortgages	100	100	Residential property
Credit cards	-	-	None
Loans pledged by deposits	100	100	Deposit
Consumer loans	100	100	Salary and vehicles

Loan and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over other corporate assets and other liens and guarantees.

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

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

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank’s historical experience and expert credit assessment and including forward-looking information.

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop indicator: If more than 30 days past due, financial asset is assigned to Stage 2; if more than 90 days, financial asset is allocated to Stage 3.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades AA and A is smaller than the difference between credit risk grades A and BB.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes • Data from credit reference agencies, press articles, changes in external credit ratings • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data on customer behaviour – e.g. utilisation of credit card facilities • Affordability matrix • External data from credit reference agencies, including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

The table below provides an indicative mapping of how the Bank's internal credit rating grades relate to PD and, for the wholesale portfolio, to the external credit ratings of Rating Agency Moody's.

Wholesale

The wholesale portfolio of the Bank is comprised of loans and advances to banks, public sector entities, sovereigns, corporates and other businesses.

Grading	12-month weighted average PD	External rating
AA	5.546%	B3
A	5.546%	B3
BB	5.235%	Caa1
B	5.235%	Caa1
CC	11.340%	Caa2
C	21.742%	Caa3
DD	34.654%	Ca-C
F	100.000%	Default

Retail

The retail portfolios are comprised of mortgage lending, personal loans and credit cards.

Grading	12-month weighted average PD	Grading	12-month weighted average PD
AA	5.546%	CC	11.340%
A	5.546%	C	21.742%
BB	5.235%	DD	34.654%
B	5.235%	F	100.000%

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank uses information purchased from external credit reference agencies.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant differs for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain hightened risk criteria, such as placement on a watch list.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 20% and 30% probability of occurring. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, such as Bank of Mongolia, National Statistical Office, World Bank, and selected private sector and academic forecasters.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

The Bank has limited historical data, therefore external benchmark information is used to supplement the internally available data. The external benchmark information which represents a significant input into the measurement of ECL is as follows.

External benchmarks used

PD	LGD
- Moody's Corporate Default and Recovery rates, 1983-2017 - Moody's Sub-Sovereign Default and recovery rates, 1983-2018H	- Moody's Corporate Default and Recovery rates, 1983-2017 - Moody's Sub-Sovereign Default and recovery rates, 1983-2018H - Basel's Quantitative Impact Study 3, Technical Guidance, LGD Foundation Approach

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

	2018				2017
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans and advances to customers at amortised cost					
Balance at 1 January	**352,494**	**-**	**-**	**352,494**	**1,977,523**
Impact of IFRS 9 (Note 6)	80,387	-	-	80,387	n.a.
Balance at 1 January after impact of IFRS 9	**432,881**	**-**	**-**	**432,881**	**n.a.**
New financial assets originated or purchased	1,372,908	58,835	-	1,431,743	325,677
Reversal of impairment allowance	-	-	-	-	(1,301,954)
Written off	-	-	-	-	(638,415)
Foreign exchange and other movements	41,280	-	-	41,280	(10,337)
Balance at 31 December	**1,847,069**	**58,835**	**-**	**1,905,904**	**352,494**

	2018				2017
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Debt investment securities at FVOCI (2017: available-for-sale investment securities)					
Balance at 1 January	**-**	**-**	**-**	**-**	**-**
Impact of IFRS 9 (Note 6)	2,465	-	-	2,465	n.a.
Balance at 1 January	2,465	**-**	**-**	2,465	**n.a.**
New financial assets originated or purchased	64,985	-	-	64,985	-
Financial assets that have been derecognised	(2,465)	-	-	(2,465)	-
Balance at 31 December	**64,985**	**-**	**-**	**64,985**	**-**

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Loss allowance, continued

(In thousands of MNT)	2018	2017
	Stage 1	**Total**
Cash and cash equivalents		
Balance at 1 January	**-**	**-**
Impact of IFRS 9 (Note 6)	17,603	-
Balance at 1 January after impact of IFRS 9	**17,603**	**-**
Net increase in cash and cash equivalents	59,226	-
Balance at 31 December	**76,829**	**-**

34.3 Liquidity risk

The Bank is exposed to liquidity risks that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Bank sets limits on the minimum funding composition that should be in place to cover withdrawals at unexpected levels of demand. It is the Bank's policy to maintain a prudent mix of borrowed and core deposit base. In addition, the Bank maintains a statutory deposit with BoM equal to local currency 10.5% and foreign currency 12% (2017: 12%) of customer deposits based on an average period of two weeks.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2018 based on contractual undiscounted repayment obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

(In thousands of MNT)		31 Dec 2018						
	Note	**On demand**	**Up to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total undiscount-ed financial liabilities**	**Carrying value**
Deposits from financial instit'ns	24	14,624,076	94,170,104	78,660,945	37,979,178	-	225,434,303	212,729,196
Deposits from customers	25	47,954,610	33,630,026	74,472,954	1,844	2,431	156,061,865	147,867,031
Repurchase agreements	26	-	30,000,000	-	-	-	30,000,000	29,603,979
Other liabilities	27	-	34,317,996	-	-	-	34,317,996	34,058,596
		62,578,686	**192,118,126**	**153,133,899**	**37,981,022**	**2,431**	**445,814,164**	**424,258,802**

34. Risk management, continued

34.3 Liquidity risk, continued

(In thousands of MNT)		31 Dec 2017			
		On demand	**Up to 6 months**	**Total undiscounted financial liabilities**	**Carrying value**
Deposits from banks	24	71,775,933	38,251,678	110,027,611	109,911,583
Deposits from customers	25	254,343	-	254,343	254,343
Repurchase agreements	26	-	37,000,000	37,000,000	36,940,917
Other liabilities	27	10,287,878	-	10,287,878	10,287,878
		82,318,154	**75,251,678**	**157,569,832**	**157,394,721**

34.4 Market risk

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

Interest rate risk

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

Currency risk

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

34. Risk management, continued

34.4 Market risk, continued

The table below summarizes the Bank's exposure to foreign exchange risk at 31 December 2018 and 31 December 2017. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

As at 31 December 2018 *(In thousands of MNT)*	**Notes**	**MNT**	**USD**	**Euro**	**Other**	**Total**
Financial assets						
Cash and balances with BOM	17	83,739,610	29,836,139	15,857	4,872,183	118,463,789
Due from banks	18	25,716,795	35,096,308	11,603	157,066	60,981,772
Financial assets at fair value	19	56,917	-	-	1,744	58,661
Financial assets at fair value through other comprehensive income	19	29,389,823	-	-	-	29,389,823
Loans and advances to customers	20	179,106,243	89,726,377	-	20,240,378	289,072,998
Other assets	23	239	-	-	-	239
		318,009,627	**154,658,824**	**27,460**	**25,271,371**	**497,967,282**
Financial liabilities						
Deposits from financial institutions	24	122,652,889	65,209,488	25	24,866,794	212,729,196
Deposits from customers	25	65,402,344	82,453,551	8,600	2,536	147,867,031
Repurchase agreements	26	29,603,979	-	-	-	29,603,979
Other liabilities	27	32,666,801	848,759	-	461,165	33,976,725
		250,326,013	**148,511,798**	**8,625**	**25,330,495**	**424,176,931**
Net position		**67,683,614**	**6,147,027**	**18,835**	**(59,125)**	**73,790,351**

34. Risk management, continued

34.4 Market risk, continued

As at 31 December 2017 *(In thousands of MNT)*	**Notes**	**MNT**	**USD**	**Euro**	**Other**	**Total**
Financial assets						
Cash and balances with BOM	17	63,828,634	12,222,060	17,460	15,875,158	91,943,312
Due from banks	18	119	84,454	532	346,245	431,350
Financial investment						
- available-for-sale	19	36,950,057	-	-	-	36,950,057
Loans and advances to customers	20	21,454,851	36,885,923	-	12,142,997	70,483,771
		122,233,661	**49,192,437**	**17,992**	**28,364,400**	**199,808,490**
Financial liabilities						
Deposits from banks	24	26,005,031	55,900,593	-	28,005,959	109,911,583
Repurchase agreements	26	36,940,917	-	-	-	36,940,917
Deposits from customers	25	189,904	56,375	7,382	682	254,343
Other liabilities	27	10,254,165	33,713	-	-	10,287,878
		73,390,017	**55,990,681**	**7,382**	**28,006,641**	**157,394,721**
Net position		**48,843,644**	**(6,798,244)**	**10,610**	**357,759**	**42,413,769**

34. Risk management, continued

34.4 Market risk, continued

Prepayment risk

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

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

Operational risk

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

Asset Quality Review (AQR)

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

In May 2018, the Bank of Mongolia informed the commercial banks that it had updated their assessment made in January 2018 to reflect the projected capital need at the end of 2018, based on the non-performing loans resulting from the AQR and stress test results based on banks' business plans. This changed the amount of new capital that the banking system had to raise by the end of 2018 to 3.1 percent of gross domestic product. In September 2018, the commercial banks booked additional provisions called for by the AQR, adjusted by loans that were repaid as the IMF stated in its 5th review report of the Extended Fund Facility program.

As at the date of approval of these financial statements, the Bank has made all provisions required by the AQR result and raised sufficient fresh capital to comply with the current requirements of the Bank of Mongolia.

35. Capital adequacy

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

Capital management

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

A minimum capital adequacy ratio was established as 12% as at 31 December 2018 (31 December 2017: 12%), calculated on the basis of total capital and total assets adjusted for their risk, and as 9% as at 31 December 2018 (31 December 2017: 9%), calculated on the basis of total Tier 1 capital and total assets adjusted for their risk.

The ratios of the Bank's capital adequacy as at 31 December 2018 and 31 December 2017 were as follows:

(In thousands of MNT)	**31 Dec 2018**	**31 Dec 2017**
Tier 1 capital	77,214,985	45,422,642
Tier 2 capital	596	596
Total Tier 1 and Tier 2 capital	**77,215,581**	**45,423,238**
Risk weighted assets	311,791,346	87,133,878
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	24.77%	52.13%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	24.76%	52.13%

The breakdown of risk weighted assets into the various categories of risk weights as at 31 December 2018 and 2017 are as follows:

(In thousands of MNT)

	2018		**2017**	
%	**Risk Assets**	**Weighted**	**Risk Assets**	**Weighted**
0	180,317,424	-	121,681,046	-
20	26,011,825	5,202,365	424,848	84,970
50	459,135	229,567	869,108	434,554
70	35,370,418	24,759,293	10,746,000	7,522,200
100	150,099,347	150,099,347	20,492,597	20,492,597
120	109,583,979	131,500,774	48,832,964	58,599,557
Total	**501,842,128**	**311,791,346**	**203,046,564**	**87,133,878**

35. Capital adequacy, continued

Capital management, continued

As well as the capital adequacy ratios, the Bank of Mongolia has set a minimum equity requirement for the Bank of MNT 56 billion as at 31 December 2018. As explained in Note 34.4, the Bank has raised new capital in 2018 and complies with this requirement.

The Bank of Mongolia has set a minimum required share capital for all commercial banks of MNT 100 billion by 31 December 2021, with a series of minimum capital increases required over the next 3 years to reach this target minimum share capital. The Bank is in the process of putting in plans and identifying sources of new capital in order to achieve the minimum required share capital levels until 2021. The Bank expects the shareholders to further increase its share capital in 2019.

36. Subsequent events

There were no material subsequent events since the end of the year that would require disclosure or adjustment to the financial statements.

37. Translation into Mongolian language

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