Transport and Development Bank LLC

Financial Statements

31 December 2019

(With Independent Auditors' Report Thereon)

Contents

	Page
Bank Information	1
Management's Responsibility Statement	2
Independent Auditors' Report	3
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	11

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 Tumenjargal. D
Chief Executive Officer Chief Finance Officer	Otgonbayar. M 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 these financial statements present fairly the state of affairs of the Bank as at 31 December 2019 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 5 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 2019 were authorized for issuance by the Bank's management.

Otgonbayar. M
Chief Executive Officer

Sainbileg. Ch
Chief Finance Officer

Ulaanbaatar,
Mongolia

Date: 16 March 2020

KPMG Audit LLC
#602, Blue Sky Tower, Peace Avenue,
1st Khoroo, Sukhbaatar District,
Ulaanbaatar 14240, Mongolia

Tel : +976 7011 8101
Fax :+976 7011 8102
www.kpmg.com/mn

Independent Auditors' Report

To: The Shareholders of Transport and Development Bank LLC

Opinion

We have audited the accompanying financial statements of Transport and Development Bank LLC ("the Bank"), which comprise the statement of financial position as at 31 December 2019, 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 2019, 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 Audit LLC, a Mongolian member firm of the KPMG network of independent member firms
affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

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.

Auditors' Responsibilities for the Audit of the Financial Statements, Continued

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.

KPMG Audit LLC
Ulaanbaatar, Mongolia
16 March 2020

Signed by:

Soyolmaa Gungaanyambuu
General Director

Approved by:

Mark Eberst
Partner

This report is effective as at 16 March 2020, 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.

(In thousands of MNT)	**Notes**	**2019**	**2018**
Interest income from financial assets using the effective interest method	*6*	57,389,099	27,695,862
Interest and similar expense	*6*	(39,897,851)	(15,999,056)
Net interest income		**17,491,248**	**11,696,806**
Fee and commission income	*7*	801,602	768,056
Fee and commission expense	*7*	(393,383)	(266,369)
Net fee and commission income		**408,219**	**501,687**
Net trading income	*8*	871,662	565,438
Net income (expense) from other financial instruments at FVTPL	*9*	(140,356)	256
Revenue		**18,630,773**	**12,764,187**
Other income	*10*	789,517	115,051
Impairment losses on financial instruments	*13*	(6,413,735)	(1,555,979)
Personnel expenses	*11*	(3,713,667)	(2,747,623)
Depreciation and amortization	*19, 20*	(1,771,354)	(676,234)
Other expenses	*10*	(1,751,692)	(2,427,749)
Non-operating expenses	*12*	(242,850)	(238,166)
Profit before tax		**5,526,992**	**5,233,487**
Income tax expense	*14*	(1,129,987)	(1,408,139)
Net profit for the year		**4,397,005**	**3,825,348**
Other comprehensive income			
Other comprehensive income transferred to profit or loss if specific conditions are met:			
Movement in fair value reserve (FVOCI debt instruments):			
- Net change in fair value		105,740	64,985
- Reclassified to profit or loss		(64,985)	-
Total comprehensive income for the year		**4,437,760**	**3,890,333**

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

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Financial Position
As at 31 December 2019

(In thousands of MNT)	Notes	31 Dec 2019	31 Dec 2018
Assets			
Cash and balances with Bank of Mongolia	*15, 27*	187,738,265	118,463,789
Due from banks	*16*	22,355,805	60,981,772
Financial assets at fair value	*17*	352,543	58,661
Financial assets at fair value through other comprehensive income	*17*	25,816,251	29,389,823
Loans and advances to customers	*18*	254,495,448	289,072,998
Current tax assets	*14*	675,263	-
Property and equipment[1]	*19*	6,226,802	2,181,152
Intangible assets	*20*	747,771	636,569
Deferred tax assets	*14*	1,035	-
Other assets	*21*	26,079,221	1,057,365
Total assets		**524,488,404**	**501,842,129**
Equity and Liabilities			
Liabilities			
Deposits from financial institutions	*22*	162,420,611	212,729,196
Deposits from customers	*23*	247,995,865	147,867,031
Repurchase agreements	*24*	3,997,590	29,603,979
Other liabilities[2]	*25*	28,420,997	34,058,596
Current tax liabilities	*14*	-	367,746
Total liabilities		**442,835,063**	**424,626,548**
Equity			
Share capital	*26*	78,000,000	78,000,000
Reserves	*26*	134,258	93,503
Retained earnings (losses)		3,519,083	(877,922)
Total equity		**81,653,341**	**77,215,581**
Total equity and liabilities		**524,488,404**	**501,842,129**

[1]Following the adoption of IFRS 16, the Bank has presented right-of-use assets within 'property and equipment'.

[2]Following the adoption of IFRS 16, the Bank has presented lease liabilities within 'other liabilities'.

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 2019

(In thousands of MNT)	**Share capital (Note 26)**	**Fair value reserve**	**Other reserves**	**Retained earnings (losses)**	**Total equity**
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**
Total comprehensive income					
Net profit for the year	-	-	-	4,397,005	4,397,005
Other comprehensive income:					
FVOCI debt investments:					
– Net change in fair value	-	105,740	-	-	105,740
– Reclassified to profit or loss	-	(64,985)	-	-	(64,985)
Balance at 31 December 2019	**78,000,000**	**105,740**	**28,518**	**3,519,083**	**81,653,341**

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

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Cash Flows
For the year ended 31 December 2019

(In thousands of MNT)	***Notes***	**2019**	**2018**
Cash flows from operating activities			
Profit for the year		4,397,005	3,825,348
Adjustment for:			
Depreciation of property and equipment	*19*	1,380,173	396,997
Amortisation of intangible assets	*20*	391,181	279,237
Write-off of property and equipment	*10, 19*	-	1,199
Write-off of intangible assets	*10, 20*	-	4,543
Loss on disposal of property and equipment, net	*10, 20*	-	127,143
Net interest income	*6*	(17,491,248)	(11,696,806)
Impairment losses, net	*13*	6,413,735	1,555,979
Income tax expense	*14*	1,129,987	1,408,139
Changes in assets and liabilities:			
Loans and advances to customers		26,491,088	(222,043,616)
Reserves with Bank of Mongolia	*27*	(8,360,894)	(19,234,307)
BOM treasury bills held on behalf of a third party	*15, 27*	30,740,600	(20,740,600)
Other assets		(25,097,329)	(571,038)
Deposits from financial institutions	*22*	(50,308,585)	102,817,613
Repurchase agreements	*24*	(25,606,389)	(7,336,938)
Deposits from customers	*23*	100,128,834	147,612,688
Other liabilities		(8,586,509)	20,849,230
Interest received		57,009,954	23,735,574
Interest paid[1]		(40,550,861)	(10,057,672)
Income taxes paid	*14*	(2,174,031)	(1,268,998)
Net cash provided by operating activities		**49,906,711**	**9,663,715**

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

(In thousands of MNT)	***Notes***	**2019**	**2018**
Cash flows from investing activities			
Acquisition of property and equipment	*19*	(736,840)	(810,829)
Acquisition of intangible assets	*20*	(502,383)	(380,318)
Proceeds from disposal of property and equipment	*19*	-	256,818
Proceeds from redemption of investment securities	*17*	770,516,293	643,444,066
Purchase of investment securities	*17*	(767,236,603)	(635,939,907)
Net cash provided by investing activities		**2,040,467**	**6,569,830**
Cash flows from financing activities			
Proceeds from issuance of shares	*26*	-	28,000,000
Payment of lease liabilities	*33*	(1,087,064)	-
Net cash (used in) / provided by financing activities		**(1,087,064)**	**28,000,000**
Net change in cash and cash equivalents		**50,860,114**	**44,233,545**
Cash and cash equivalents at 1 January before change in accounting policy IFRS 9	*27*	122,497,183	75,401,191
Change in accounting policy IFRS 9		n/a	(17,603)
Cash and cash equivalents at 1 January after change in accounting policy IFRS 9	*27*	n/a	75,383,588
Effect of foreign exchange rate fluctuation on cash held		2,168,101	2,880,050
Cash and cash equivalents at 31 December	*27*	**175,525,398**	**122,497,183**

[1]The Bank has classified:

- cash payments for the principal portion of lease payments as financing activities;
- cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Bank.

The Bank has not restated comparative information.

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.

As at 31 December 2019, the Bank is owned by three individuals and one company. The ultimate controlling party is an individual, Mr. Temuujin Munkhbat.

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 in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 4.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

2. Basis of preparation, continued

(d) Use of judgments and estimates

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

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

(i) Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Note 34.2: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.
- Note 5(b)(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 5 (n)(i): lease term: whether the Bank is reasonably certain to exercise extension options.

(ii) 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 5 (j);
(b) Classification of financial assets – Note 5 (b)(ii);
(c) Impairment of financial assets – Note 5 (b)(vi);
(d) Useful lives of property and equipment – Note 5 (e);
(e) Leases – Note 5 (n).

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. Standards issued but not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

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

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 Insurance Contracts.

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.

4. Changes in accounting policies

IFRS 16 Leases

The Bank initially applied IFRS 16 *Leases* from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but do not have a material effect on the Bank's financial statements.

The Bank applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 5(n).

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

ii. As a lessee

As a lessee, the Bank leases some branch, office and residential premises. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for leases of branch, office and residential premises the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019 (see Note 4 (iii)).

On transition, the right-of-use assets were measured at an amount equal to the lease liability.

4. Changes in accounting policies, continued

IFRS 16 Leases, continued

ii. As a lessee, continued

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

iii. Impact on financial statements

Impact on transition*

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

(In thousands of MNT)	**1 January 2019**
Right-of-use assets presented in property and equipment	2,620,253
Lease liabilities	2,557,501
Restoration cost liabilities	62,752

*For the impact of IFRS 16 on profit or loss for the year, see Note 33. For the impact of IFRS 16 on segment information, see Note 31. For the details of accounting policies under IFRS 16 and IAS 17, see Note 5(n).

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate applicable for the type of lease arrangement at 1 January 2019. The weighted-average rate applied was 14.4% (12% for USD denominated leases).

(In thousands of MNT)	**1 January 2019**
Operating lease commitment at 31 December 2018 as disclosed under IAS 17 in the Bank's financial statements	3,302,024
Discounted using the incremental borrowing rate at 1 January 2019	2,573,263
- Recognition exemption for leases of low-value assets	(15,762)
Lease liabilities recognised at 1 January 2019	2,557,501

5. 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 4.

(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. Foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

(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 or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

ii. Classification

Financial assets

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.

5. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

ii. Classification, continued

Financial assets, continued

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.

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 its strategy for 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.

5. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

ii. Classification, continued

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.

Reclassifications

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.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

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.

5. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

iii. Derecognition, continued

Financial assets, continued

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.

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

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.

5. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

iv. Modification of financial assets and financial liabilities, continued

Financial assets, continued

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.

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.

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.

5. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

vi. Impairment

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.

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 Bank 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.

5. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

vi. Impairment, continued

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.

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.

5. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

vi. Impairment, continued

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.

vii. Designation at fair value through profit or loss

Financial assets

On 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.

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.

5. Significant accounting policies, continued

(c) Cash and cash equivalents

Cash and cash equivalents include notes 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

The investment securities include:

- 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.

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 in OCI. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

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.

(e) Property and equipment

Recognition and measurement

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.

5. Significant accounting policies, continued

(e) Property and equipment, continued

Recognition and measurement, continued

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

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.

Depreciation

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.

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.

5. Significant accounting policies, continued

(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.

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.

5. Significant accounting policies, continued

(j) Interest

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.

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.

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.

5. Significant accounting policies, continued

(j) Interest, continued

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.

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.

(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.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

5. Significant accounting policies, continued

(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, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(n) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

i. Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branch and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

5. Significant accounting policies, continued

(n) Leases, continued

Policy applicable from 1 January 2019, continued

i. Bank acting as a lessee, continued

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

5. Significant accounting policies, continued

(n) Leases, continued

Policy applicable from 1 January 2019, continued

ii. Bank acting as a lessor, continued

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

i. As a lessee

The Bank did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Bank’s statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

ii. As a lessor

When the Bank acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Bank made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Bank considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(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.

5. 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.

5. 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 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.

For loan commitments the Bank recognizes a loss allowance.

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.

(s) Segment reporting

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

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

(In thousands of MNT)	2019	2018
Loans and advances to customers	41,091,490	17,317,035
Financial assets at fair value through other comprehensive income	4,476,698	625,390
Balance with Bank of Mongolia	6,860,624	7,024,060
Due from banks	4,960,287	2,729,377
	57,389,099	**27,695,862**

MNT 3,237,618 thousand (2018: 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 Deposit Insurance Corporation of Mongolia (DICOM), see Note 15 and Note 25.

Interest and similar expense

(In thousands of MNT)	2019	2018
Deposits from financial institutions	17,734,010	8,793,642
Deposits from customers	15,185,260	3,647,561
Other liabilities	3,237,618	3,022,497
Interest expense on lease liabilities	385,148	-
Repurchase agreements	3,355,815	535,356
	39,897,851	**15,999,056**

The amounts reported above include interest income and expenses, calculated using the effective interest method, that relate to the following interest bearing financial assets and financial liabilities.

(In thousands of MNT)	2019	2018
Financial assets measured at amortised cost	304,197,387	350,054,770
Financial assets measured at FVOCI	60,604,102	100,229,435
	364,801,489	**450,284,205**
Financial liabilities measured at amortised cost	414,414,066	390,200,206

7. Net fee and commission income

In the following table, fee and commission income from contracts with customers is disaggregated by major type of services.

(In thousands of MNT)	2019	2018
Fee and commission income		
Commission fees	387,785	388,892
Loan related service	136,759	152,319
Account service fees	95,211	198,123
Transaction fees	97,087	4,690
Card service fees	8,696	8,164
Other fees	76,064	15,868
	801,602	**768,056**

7. Net fee and commission income, continued

(In thousands of MNT)	2019	2018
Fee and commission expense		
Card service fees	(173,595)	(54,029)
Bank service fees	(118,412)	(128,907)
Other fees	(101,376)	(83,433)
	(393,383)	**(266,369)**
	408,219	**501,687**

8. Net trading income

(In thousands of MNT)	2019	2018
Foreign exchange trading gains	951,053	1,258,827
Foreign exchange trading losses	(530,447)	(878,579)
Precious metals trading gains	1,208,255	253,021
Precious metals trading losses	(778,518)	(80,605)
Gains on disposal of securities	21,319	15,819
Losses on disposal of securities	-	(3,045)
	871,662	**565,438**

9. Net income from other financial instruments at FVTPL

(In thousands of MNT)	2019	2018
Net income from financial instruments mandatorily measured at FVTPL other than those included in "net trading income"		
Investment securities:		
- Equities	43,828	2,616
Derivatives held for risk management:		
- Foreign exchange	(184,184)	(2,360)
	(140,356)	**256**

10. Other income and expenses

Other income is presented as follows:

(In thousands of MNT)	2019	2018
Promotion income from BOM	511,400	109,190
Foreign currency gains, net	274,910	-
Repayment of loans previously written-off	1,196	-
Other income	2,011	5,861
	789,517	**115,051**

Other expenses are as follows:

(In thousands of MNT)	2019	2018
Insurance	685,030	339,314
Professional service fees	362,836	303,523
Repairs and maintenance	180,597	94,670
Advertising and marketing	163,382	124,733
Labour safety	83,584	61,232
Security	67,877	70,987
IT and communication	52,658	55,769
Lease expenses (Note 4)	48,587	850,202
Utilities	40,085	36,742
Stationary	23,935	36,087
Transportation	15,545	13,447
Foreign currency losses, net	-	234,269
Loss on disposal of property and equipment, net	-	127,143
Loss on write-off of intangible assets	-	4,543
Loss on write-off of property and equipment	-	1,199
Other expenses	27,576	73,889
	1,751,692	**2,427,749**

11. Personnel expenses

(In thousands of MNT)	2019	2018
Salaries	2,935,578	2,270,212
Contribution to social and health insurance	371,099	265,907
Business trips	256,815	104,125
Employees' trainings	130,418	68,204
Other employees' expenses	19,757	39,175
	3,713,667	**2,747,623**

12. Non-operating expenses

(In thousands of MNT)	2019	2018
Hospitality	138,263	136,788
Donation	8,944	-
Penalties	480	51
Others	95,163	101,327
	242,850	**238,166**

13. Impairment losses on financial instruments

(In thousands of MNT)	2019	2018
Loans and advances to customers (Note 18)	(6,297,505)	(1,431,743)
Other assets	(47,745)	(25)
Due from banks (Note 16)	(19,897)	(20,997)
New financial assets at FVOCI originated or purchased*	(105,740)	(64,985)
Financial assets at FVOCI that have been derecognised**	64,985	-
Reversal of cash and balances with Bank of Mongolia allowance	-	1,154
Cash and balances with Bank of Mongolia (Note 15)	(7,833)	(39,383)
	(6,413,735)	**(1,555,979)**

* The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

** In 2019, the Bank reclassified the cumulative gain previously recognised in other comprehensive income on BOM treasury bills amounting to MNT 64,985 thousand to profit or loss as the related BOM treasury bills were derecognised.

14. Income tax expense

(1) Income tax expense consists of the following:

(In thousands of MNT)	2019	2018
Income tax expense		
Current tax expense	1,131,022	1,408,139
Deferred tax benefit	(1,035)	-
	1,129,987	**1,408,139**

14. 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)	2019	2018
Profit before tax	5,526,992	5,233,487
Tax at statutory rate*	931,748	858,372
Effect of non-deductible expenses	771,320	704,956
Effect of income not subject to income tax	(573,081)	(155,189)
	1,129,987	**1,408,139**

(*) According to Mongolian Tax Laws, until 2019, the Bank had an obligation to pay the Government Corporate Income Tax of 10% on the portion of taxable profits up to MNT 3 billion and 25% on the portion of taxable profits above MNT 3 billion, if the Bank earns revenue from operating activities. Since 2020, under new tax legislation, a 10% tax rate is applied for taxable profits up to MNT 6 billion and 25% on the portion of taxable profits above MNT 6 billion.

(3) Changes in deferred tax assets (liabilities) for the year ended 31 December 2019 are as follows:

(In thousands of MNT)	Beginning balance	Profit or loss	Ending balance
31 December 2019			
Property and equipment	-	15,084	15,084
Intangible assets	-	(14,049)	(14,049)
	-	**1,035**	**1,035**

(4) The aggregate amounts of deferred tax assets, current tax assets and liabilities before offsetting are as follows:

(In thousands of MNT)	2019	2018
Deferred tax assets	1,035	-
Current tax assets	675,263	-
Current tax liabilities	-	367,746

(5) 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.

15. Cash and balances with Bank of Mongolia

(In thousands of MNT)	**31 Dec 2019**	**31 Dec 2018**
Cash on hand	27,921,285	3,805,206
Current account with BOM (MNT) *	21,256,740	12,823,180
Current account with BOM (Foreign currency)*	76,426,255	30,995,791
Deposit account with BoM (Foreign currency)*	27,346,134	-
Securities (up to 3 months) **	34,787,851	70,839,612
	187,738,265	**118,463,789**

(*) Current accounts and deposit 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% (2018: 10.5%), foreign currency 12% (2018: 12%) of customer deposits for a period of 2 weeks. As at 31 December 2019, the average reserve required by BOM for this period of 2 weeks was MNT 15,421,957 thousand (31 December 2018: MNT 8,129,780 thousand) for local currency and MNT 19,146,715 thousand (31 December 2018: MNT 18,077,998 thousand) for foreign currency maintained in current accounts with BOM.

(**) Within securities (up to 3 months) the Bank holds BOM securities in an amount of nil (31 December 2018: MNT 30,740,600 thousand) on behalf of Deposit Insurance Corporation of Mongolia (DICOM) as at 31 December 2019. These BOM securities are restricted under the contract with DICOM, see details in Note 25.

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 2019**	**31 Dec 2018**
Current account with BOM (MNT)	1,238	439
Current account with BOM (Foreign currency)	56,364	55,344
Deposit account with BoM (Foreign Currency)	6,014	-
	63,616	**55,783**

16. Due from banks

(In thousands of MNT)	**31 Dec 2019**	**31 Dec 2018**
Current accounts at banks	1,856,519	669,054
Deposits at banks	20,499,286	55,311,417
Overnight loan	-	5,001,301
	22,355,805	**60,981,772**

16. Due from banks, continued

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

(In thousands of MNT)	31 Dec 2019	31 Dec 2018
Amortized cost:		
Current accounts at banks	16,092	613
Deposits at banks	24,851	20,227
Overnight loan	-	206
	40,943	**21,046**

17. Financial investments

(In thousands of MNT)	31 Dec 2019	31 Dec 2018
Financial assets at fair value:		
Equity investments	352,543	58,661
Financial assets at fair value through other comprehensive income:		
BOM treasury bills	25,816,251	29,389,823
	26,168,794	**29,448,484**

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

18. Loans and advances to customers

(In thousands of MNT)	31 Dec 2019	31 Dec 2018
Investment loans	101,236,496	201,751,762
Working capital loans	150,265,149	54,483,562
Mortgages	85,632	563,919
Loans pledged by deposits	9,035,525	32,571,191
Consumer loans	460,690	333,267
	261,083,492	**289,703,701**
Accrued interest receivables	1,654,346	1,275,201
Gross loans and advances to customers	**262,737,838**	**290,978,902**
Less: Allowances for loans and advances to customers	(8,242,390)	(1,905,904)
Net loans and advances to customers	**254,495,448**	**289,072,998**

18. Loans and advances to customers, continued

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

(In thousands of MNT)	**2019**	**2018**
Beginning balance	1,905,904	352,494
Impact of IFRS 9	n/a	80,387
Beginning balance after impact of IFRS 9	**1,905,904**	**432,881**
Charge for the year (Note 13)	6,297,505	1,431,743
Effect of foreign currency movements	38,981	41,280
Ending balance	**8,242,390**	**1,905,904**

19. Property and equipment

Changes in property and equipment are as follows:

(In thousands of MNT)	**Right-of-use assets**	**Leasehold improvements**	**Office furniture**	**Computer equipment**	**Vehicles**	**Total**
At 31 December 2019						
Cost:						
At 31 December 2018	-	418,575	898,005	429,670	1,059,645	2,805,895
Recognition of right-of-use asset on initial application of IFRS 16	2,620,253	-	-	-	-	2,620,253
Adjusted balance at 1 January 2019	**2,620,253**	**418,575**	**898,005**	**429,670**	**1,059,645**	**5,426,148**
Additions	2,068,730	78,755	64,575	143,510	450,000	2,805,570
At 31 December 2019	**4,688,983**	**497,330**	**962,580**	**573,180**	**1,509,645**	**8,231,718**
Accumulated depreciation:						
At 1 January 2019	-	88,121	240,358	184,714	111,550	624,743
Charge for the year	922,469	106,872	77,828	156,807	116,197	1,380,173
At 31 December 2019	**922,469**	**194,993**	**318,186**	**341,521**	**227,747**	**2,004,916**
Net carrying amount						
31 December 2019	**3,766,514**	**302,337**	**644,394**	**231,659**	**1,281,898**	**6,226,802**

19. Property and equipment, continued

(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**

20. Intangible assets

Changes in intangible assets are as follows:

(In thousands of MNT)	2019	2018
Software		
Acquisition cost:		
Beginning balance	1,040,160	666,073
Additions	502,383	380,318
Write-off	-	(6,231)
Ending balance	**1,542,543**	**1,040,160**
Accumulated amortization:		
Beginning balance	403,591	126,042
Amortization charge	391,181	279,237
Write-off	-	(1,688)
Ending balance	**794,772**	**403,591**
Carrying amounts:		
Beginning balance	636,569	540,031
Ending balance	**747,771**	**636,569**

21. Other assets

(In thousands of MNT)	**31 Dec 2019**	**31 Dec 2018**
Precious metals*	22,697,896	-
Prepayments and advances	3,239,825	961,653
Supplies and materials	141,364	95,473
Other assets	136	239
	26,079,221	**1,057,365**

* The Bank buys gold and silver and resells them in the same condition in a short period to the Bank of Mongolia after physical delivery. The commodity received under such a contract is accounted for under IAS 2, except for the measurement requirements for inventories. The gold and silver are measured at fair value less costs to sell. All changes in the fair value less costs to sell of such inventories are recognised in profit or loss. Such inventories are normally acquired with the purpose of selling them in the near future and generating a profit from fluctuations in price or from the Bank's trade margin.

22. Deposits from financial institutions

(In thousands of MNT)	**31 Dec 2019**	**31 Dec 2018**
Current accounts from banks and financial institutions	175,598	14,624,076
Deposit accounts from banks and financial institutions	162,245,013	198,105,120
	162,420,611	**212,729,196**

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

23. Deposits from customers

(In thousands of MNT)	**31 Dec 2019**	**31 Dec 2018**
Government sector deposits:		
Current accounts	8,763,845	8,925,051
Time deposits	71,803,242	55,000,000
Private sector:		
Current accounts	48,171,903	1,203,232
Demand deposits	578,187	46
Time deposits	13,600,661	43,872,472
Individuals:		
Current accounts	815,363	305,606
Demand deposits	32,817,478	37,520,099
Time deposits	71,445,186	1,040,525
	247,995,865	**147,867,031**

24. Repurchase agreements

Contract party	Sold date	Maturity	Interest rate	31 Dec 2019 MNT'000
Domestic bank	31 Dec 2019	2 Jan 2020	11.00%	3,997,590
				3,997,590

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

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.

25. Other liabilities

(In thousands of MNT)	31 Dec 2019	31 Dec 2018
Payables to Deposit Insurance Corporation	21,751,518	30,740,600
Lease liabilities	3,643,444	-
Restoration cost liabilities	347,154	-
Accrued interest payable	2,014,992	3,053,150
Performance and tender guarantees	267,697	-
Other tax payables	96,961	11,326
Deferred income	67,899	81,871
Delay on clearing settlement	19,729	18,911
Derivative liabilities	12,747	-
Other payables	198,856	152,738
	28,420,997	**34,058,596**

(In thousands of MNT)	31 Dec 2019	31 Dec 2018
Non-current	2,766,970	-
Current	25,654,027	34,058,596
	28,420,997	**34,058,596**

On 3 November 2017, the Bank concluded an investment intermediary contract with Deposit Insurance Corporation of Mongolia (DICOM) for one year to purchase and hold BOM securities on its behalf, which was extended for another one year on 3 November 2018. On 19 November 2019, the contract was renewed with same terms and conditions as before. 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 DICOM under the investment intermediary contract, and has issued promissory notes to DICOM to this effect. Should BOM not redeem the securities or related interest, the Bank is nevertheless required to repay the funds and interest to DICOM.

26. Share capital and reserves

a. Share capital

	Number of ordinary shares		Value	
	31 Dec 2019	31 Dec 2018	31 Dec 2019 MNT'000	31 Dec 2018 MNT'000
Beginning balance	78,000,000	50,000,000	78,000,000	50,000,000
Issued during the year	-	28,000,000	-	28,000,000
Ending balance	**78,000,000**	**78,000,000**	**78,000,000**	**78,000,000**

At 31 December 2019, 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 2019 and 31 December 2018, 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.

27. Cash and cash equivalents

(In thousands of MNT)	Note	31 Dec 2019	31 Dec 2018
Cash and balances with BOM	*15*	152,950,414	47,624,177
Due from banks	*16*	22,355,805	60,981,772
BOM treasury bills	*15*	34,787,851	70,839,612
		210,094,070	**179,445,561**
Less: Minimum reserve with BOM not available to finance the Bank's day to day operations	*15*	(34,568,672)	(26,207,778)
Less: BOM treasury bills held on behalf of DICOM	*15*	-	(30,740,600)
Total cash and cash equivalents for the statement of cash flows		**175,525,398**	**122,497,183**

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 DICOM are not included in cash and cash equivalents, see details in Note 15.

28. Fair value of financial instruments

Determination of fair value and fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

(In thousands of MNT)	Level 1	Level 2	Level 3	Total
At 31 December 2019				
Financial assets				
BOM treasury bills	-	34,787,851	-	34,787,851
Equity investments at fair value	339,388	-	13,155*	352,543
Financial assets at fair value through other comprehensive income	-	25,816,251	-	25,816,251
	339,388	**60,604,102**	**13,155**	**60,956,645**
Financial liabilities				
Derivative liabilities held for risk management				
- Foreign exchange	12,747	-	-	12,747
	12,747	**-**	**-**	**12,747**
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**

* 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.

28. Fair value of financial instruments, continued

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

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.

29. 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 2019**	**31 Dec 2018**
Contingent liabilities		
Performance and tender guarantees	1,531,597	1,008,732
Commitments		
Undrawn commitments to lend	495,725	420,180
	2,027,322	**1,428,912**

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.

29. Contingent liabilities and commitments, continued

Commitments

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

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

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 2020.

Lease commitments - Bank as lessee

The Bank as lessee has entered into leases of various buildings under cancellable 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 would pay under the non-cancellable lease agreements with initial terms of one year or more at 31 December 2018 were as follows:

(In thousands of MNT)	**31 Dec 2018**
Within a year	909,750
1-5 years	2,392,274
	3,302,024

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.

29. Contingent liabilities and commitments, 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 four (until 2019: five) calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

Mongolian transfer pricing (TP) legislation effective from 1 January 2020 is generally aligned with the international TP principles developed by the Organization for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The management has implemented a plan and procedures to comply with current TP legislation.

As Mongolian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. 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 Bank.

30. 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 2019			
Financial assets			
Cash and balances with BOM	187,738,265	-	187,738,265
Due from banks	22,355,805	-	22,355,805
Financial assets at fair value	339,388	13,155	352,543
Financial assets at fair value through other comprehensive income	25,816,251	-	25,816,251
Loans and advances to customers	188,887,807	65,607,641	254,495,448
Other assets (*1)	22,698,032	-	22,698,032
	447,835,548	65,620,796	513,456,344
Financial liabilities			
Deposits from financial institutions	(162,320,611)	(100,000)	(162,420,611)
Deposits from customers	(238,159,103)	(9,836,762)	(247,995,865)
Repurchase agreements	(3,997,590)	-	(3,997,590)
Other liabilities (*2)	(25,586,128)	(2,766,970)	(28,353,098)
	(430,063,432)	(12,703,732)	(442,767,164)
	17,772,116	**52,917,064**	**70,689,180**

30. Maturity analysis of assets and liabilities, continued

(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	49,536	9,125	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
	383,809,305	114,157,977	497,967,282
Financial liabilities			
Deposits from financial institutions	(180,729,196)	(32,000,000)	(212,729,196)
Deposits from customers	(147,864,521)	(2,510)	(147,867,031)
Repurchase agreements	(29,603,979)	-	(29,603,979)
Other liabilities (*2)	(33,976,725)	-	(33,976,725)
	(392,174,421)	(32,002,510)	(424,176,931)
	(8,365,116)	**82,155,467**	**73,790,351**

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

31. Operating segments

The Bank voluntarily adopted to report operating segments in the financial statements from financial year 2019, although the Bank is not mandatorily required to disclose under IFRS.

The Bank has the following five strategic segments. These segments offer different products and services, and are managed separately based on the Bank's management and internal reporting structure.

Reportable segments	Operations
Corporate banking	Loans, deposit and other transactions and balances with corporate customers and business purpose loans to individual customers
Central treasury	Funding and centralized risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities
Investment banking	Trading and corporate finance activities
Private banking	Loans, deposits and other transactions and balances with customers
China cooperation	Customer deposits

The Bank's Executive Management Committee is the Chief Operating Decision Maker and reviews the internal management reports of these segments at least quarterly. The Bank's Chief Executive Officer reviews the internal management reports of these segments on a weekly, monthly and quarterly basis.

31. Operating segments, continued

Other operations such as digital and retail banking did not meet the income and asset thresholds for reportable segments in 2019. For reporting purposes, cost centers are not considered as reportable segments. Information related to each reportable segment is set out below.

2019: *(In thousands of MNT)*	**Corporate Banking**	**Treasury**	**Investment Banking**	**Private Banking**	**China Cooperation**	**Others**	**Total**
Interest income	41,088,493	16,297,609	-	-	-	2,997	57,389,099
Interest expense	(17,094,684)	(22,322,651)	(2,324)	-	-	(478,192)	(39,897,851)
Net interest income (expense)	**23,993,809**	**(6,025,042)**	**(2,324)**	**-**	**-**	**(475,195)**	**17,491,248**
Inter-segment interest revenue (expense)	(15,833,202)	15,726,029	4,966	-	-	102,207	-
After inter-segment interest revenue (expense)	**8,160,607**	**9,700,987**	**2,642**	**-**	**-**	**(372,988)**	**17,491,248**
Net fee and commission income (expense)	393,151	218,287	(2,000)	-	-	(201,219)	408,219
Net trading income and net income from other financial instruments at FVTPL	-	673,540	43,829	-	-	13,937	731,306
Total operating income	**8,553,758**	**10,592,814**	**44,471**	**-**	**-**	**(560,270)**	**18,630,773**
Other income	41,951	786,398	733		-	(39,565)	789,517
Operating expense	(335,338)	(345,792)	(138,465)	(53,924)	(10,019)	(4,581,821)	(5,465,359)
Depreciation and amortization	(8,455)	(8,324)	(2,235)	(177,320)	(578)	(1,574,442)	(1,771,354)
Non-operating expense	(15,064)	(35,648)	(1,747)	-	(235)	(190,156)	(242,850)
Total operating and non-operating expense	**(358,857)**	**(389,764)**	**(142,447)**	**(231,244)**	**(10,832)**	**(6,346,419)**	**(7,479,563)**
Total income before impairment losses	**8,236,852**	**10,989,448**	**(97,243)**	**(231,244)**	**(10,832)**	**(6,946,254)**	**11,940,727**
Impairment losses on financial assets	(6,345,250)	(68,504)	-	-	-	19	(6,413,735)
Profit (loss) before tax	**1,891,602**	**10,920,944**	**(97,243)**	**(231,244)**	**(10,832)**	**(6,946,235)**	**5,526,992**
Inter-segment income (expense)	(1,242,804)	(1,265,524)	(659,246)	(294,144)	(49,958)	3,511,676	-
After inter-segment income (expense)	**648,798**	**9,655,420**	**(756,489)**	**(525,388)**	**(60,790)**	**(3,434,559)**	**5,526,992**
Income tax expense	-	-	-	-	-	-	(1,129,987)
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**4,397,005**
Segment assets	**254,553,914**	**260,226,453**	**348,305**	**1,904,901**	**6,491**	**7,448,340**	**524,488,404**
Segment liabilities	**274,387,028**	**161,199,468**	**-**	**-**	**-**	**7,248,567**	**442,835,063**
Capital expenditures	67,548	4,081	5,477	-	1,910	1,094,607	1,173,623

31. Operating segments, continued

2018: *(In thousands of MNT)*	**Corporate Banking**	**Treasury**	**Investment Banking**	**Others**	**Total**
Interest income	17,316,459	10,378,827	-	576	27,695,862
Interest expense	(3,644,582)	(12,351,495)	-	(2,979)	(15,999,056)
Net interest income (expense)	**13,671,877**	**(1,972,668)**	**-**	**(2,403)**	**11,696,806**
Net fee and commission income (expense)	366,099	288,259	(1,541)	(151,130)	501,687
Net trading income and net income (expense) from other financial instruments at FVTPL	-	527,398	18,435	19,861	565,694
Total operating income	**14,037,976**	**(1,157,011)**	**16,894**	**(133,672)**	**12,764,187**
Other income	-	109,191	-	5,860	115,051
Operating expense	(527,582)	(167,018)	(112,842)	(4,367,930)	(5,175,372)
Depreciation and amortization	(3,564)	(3,488)	(2,307)	(666,875)	(676,234)
Non-operating expense	-	-	-	(238,166)	(238,166)
Total operating and non-operating expense	**(531,146)**	**(170,506)**	**(115,149)**	**(5,272,971)**	**(6,089,772)**
Total income before impairment losses	**13,506,830**	**(1,218,326)**	**(98,255)**	**(5,400,783)**	**6,789,466**
Impairment losses on financial assets	(1,431,612)	(124,236)	-	(131)	(1,555,979)
Profit (loss) before tax	**12,075,218**	**(1,342,562)**	**(98,255)**	**(5,400,914)**	**5,233,487**
Income tax expense	-	-	-	-	(1,408,139)
Net profit for the year	**-**	**-**	**-**	**-**	**3,825,348**
Segment assets	**289,066,487**	**208,458,595**	**62,129**	**4,254,918**	**501,842,129**
Segment liabilities	**158,598,889**	**264,725,618**	**-**	**1,302,041**	**424,626,548**
Capital expenditures	1,625	-	1,080	365,743	368,448

32. Related party disclosures

(1) As at 31 December 2019, the main related parties to the Bank are as follows:

Name of party	Relationship at 31 December 2019
a. Shareholders	Temuujin. M (71.79%) Oyungerel. D (8.65%) Radnaabazar. P (14.33%) Infrastructure LLC (5.23%)
b. Companies and individuals related to shareholders	
c. Key management personnel	Executive management and Board of Directors
d. Companies and individuals related to management	
e. Others	Employees of the Bank

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.

(2) Related party balances

(In thousands of MNT)	Relationship	31 Dec 2019	31 Dec 2018
Loans and advances to customers:			
Loans	Companies and individuals related to shareholders	12,455,773	4,603,495
	Management	20,300	-
	Companies and individuals related to management	-	167,393
	Others	50,119	122,212
		12,526,192	**4,893,100**
Deposits and current accounts:			
Deposits	Shareholders	22,077,450	8,935
	Companies and individuals related to shareholders	5,728	-
	Management	50,632	-
	Companies and individuals related to management	123,611	-
	Others	197,931	51,507
		22,455,352	**60,442**

32. Related party disclosures, continued

(2) Related party balances, continued

(In thousands of MNT)	Relationship	31 Dec 2019	31 Dec 2018
Deposits and current accounts:			
Current accounts	Shareholders	48,910	36,094
	Companies and individuals related to shareholders	264,812	-
	Management	4,012	-
	Companies and individuals related to management	88	-
	Others	238	8,012
		318,060	**44,106**
Commitments:			
Credit line undrawn	Companies and individuals related to shareholders	6,726	-
		6,726	**-**

(3) Related party transactions

(In thousands of MNT)	Relationship	2019	2018
Loans and advances to customers:			
Loans issued to	Companies and individuals related to shareholders	(17,016,250)	(18,925,794)
	Management	(20,950)	(7,133)
	Companies and individuals related to management	-	(180,000)
	Others	(337,249)	(401,650)
Loans repaid from	Companies and individuals related to shareholders	9,163,972	18,819,510
	Management	650	7,133
	Companies and individuals related to management	167,393	12,607
	Others	409,342	279,437
Interest income from loans issued	All related parties	1,113,762	707,583
Interest expense	All related parties	123,603	14,097
Impairment losses on Stage 3 loans	Companies and individuals related to shareholders	178,925	-

32. Related party disclosures, continued

(4) Compensation of key management personnel

(In thousands of MNT)	2019	2018
Short term employee benefits:		
Salaries	640,834	602,943
Bonus and compensation	41,831	25,737
Contribution to social and health fund	84,997	75,127
	767,662	**703,807**

33. Leases

See accounting policy in Note 5(n).

Leases as lessee (IFRS 16)

The Bank leases a number of offices, branches and residential premises, the contracts for which run for a period of 3-5 years, with an option to renew the leases after that date. Lease payments are renegotiated upon renewal. Some rental spaces include a management fee, which is updated annually to reflect market changes. The Bank has elected not to recognise right-of-use assets and liabilities for short-term and/or leases of low-value items.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Bank is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to leased premises that are presented within property and equipment (see Note 19).

(In thousands of MNT)	2019
Balance at 1 January	2,620,253
Additions	2,068,730
Depreciation charge for the year	(922,469)
Balance at 31 December	**3,766,514**

ii. Amounts recognised in profit or loss

(In thousands of MNT)	Total
2019 – Leases under IFRS 16	
Interest on lease liabilities	385,148
Expenses relating to short-term leases	48,587
2018 – Operating leases under IAS 17	
Lease expense	850,202

33. Leases, continued

iii. Amounts recognised in statement of cash flows

(In thousands of MNT)	**2019**
Cash outflow for leases	1,087,064

34. Risk management

34.1 Introduction

Risk is inherent in the Bank's 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.

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.

34. Risk management, continued

34.1 Introduction, continued

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.

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.

34. Risk management, continued

34.1 Introduction, continued

Risk measurement and reporting system, continued

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.

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.

34. Risk management, continued

34.2 Credit risk, continued

Excessive Risk Concentration, continued

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.

(In thousands of MNT)	Note	31 Dec 2019	31 Dec 2018
Cash and balances with BOM (excluding cash on hand)	15	159,816,980	114,658,583
Due from banks	16	22,355,805	60,981,772
Financial assets at fair value through other comprehensive income	17	25,816,251	29,389,823
Loans and advances to customers	18	254,495,448	289,072,998
Total on balance sheet		**462,484,484**	**494,103,176**
Guarantees	29	1,531,597	1,008,732
Commitments	29	495,725	420,180
Total off balance sheet		**2,027,322**	**1,428,912**
Total credit risk exposure		**464,511,806**	**495,532,088**

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.

34. Risk management, continued

34.2 Credit risk, continued

Risk concentrations by industry

The table below shows the analysis per industry sector of the Bank's loans and advances to customers (Note 18) in gross amounts.

	31 Dec 2019		31 Dec 2018	
(In thousands of MNT)	**Gross maximum exposure**	**%**	**Gross maximum exposure**	**%**
Trading	58,057,989	22.1%	62,784,960	21.6%
Mining and exploration	79,366,696	30.2%	49,328,640	17.0%
Transportation	39,783,033	15.1%	41,803,611	14.4%
Leasing	23,375,777	8.9%	44,205,879	15.2%
Construction	37,819,089	14.4%	24,907,655	8.6%
Real estate	2,312,319	0.9%	9,304,961	3.2%
Hospitality	5,927,031	2.3%	21,338,925	7.3%
Electricity & Power	6,869,409	2.6%	3,501,875	1.2%
Communications	116,088	0.0%	20,042	0.0%
Other	9,110,407	3.5%	33,782,354	11.6%
	262,737,838	**100.0%**	**290,978,902**	**100.0%**
Impairment allowances	(8,242,390)		(1,905,904)	
	254,495,448		**289,072,998**	

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 based on the Bank's internal credit grading. 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 5 (b)(vi).

	2019			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan and advances to customers at amortized cost				
Grade AA	25,408,970	-	-	25,408,970
Grade A	52,157,347	-	-	52,157,347
Grade BB	70,365,873	7,316,983	2,261,610	79,944,466
Grade B	70,559,971	10,839,181	6,203,870	87,603,022
Grade CC	8,293,301	-	1,197,606	9,490,907
Grade C	-	-	8,133,126	8,133,126
Loss allowance	(2,409,231)	(152,675)	(5,680,484)	(8,242,390)
Carrying amount	**224,376,231**	**18,003,489**	**12,115,728**	**254,495,448**

	2018			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan and advances to customers at amortized cost				
Grade AA	98,619,070	-	-	98,619,070
Grade A	50,786,621	2,973,997	-	53,760,618
Grade BB	72,361,293	-	-	72,361,293
Grade B	48,523,512	17,714,409	-	66,237,921
Loss allowance	(1,847,069)	(58,835)	-	(1,905,904)
Carrying amount	**268,443,427**	**20,629,571**	**-**	**289,072,998**

34. Risk management, continued

34.2 Credit risk, continued

Credit quality analysis, continued

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.

	2019			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan and advances to retail customers at amortized cost – gross carrying amount				
Overdue less than 30 days	9,719,532	-	-	9,719,532
Overdue 90-179 days	-	-	-	-
Loss allowance	(20,895)	-	-	(20,895)
Carrying amount	**9,698,637**	**-**	**-**	**9,698,637**
Loan and advances to corporate customers at amortized cost – gross carrying amount				
Overdue less than 30 days	217,065,930	18,156,164	-	235,222,094
Overdue 30-89 days	-	-	6,203,870	6,203,870
Overdue 90-179 days	-	-	4,459,216	4,459,216
Overdue 180-360 days	-	-	1,776,788	1,776,788
Overdue more than 360 days	-	-	5,356,338	5,356,338
Loss allowance	(2,388,336)	(152,675)	(5,680,484)	(8,221,495)
Carrying amount	**214,677,594**	**18,003,489**	**12,115,728**	**244,796,811**
Debt investment securities at FVOCI				
Grade B	60,604,102	-	-	60,604,102
Carrying amount	**60,604,102**	**-**	**-**	**60,604,102**
Loss allowance recognized in OCI	(40,755)	-	-	(40,755)

34. Risk management, continued

34.2 Credit risk, continued

Credit quality analysis, continued

	2018			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan and advances to customers at amortized cost – gross carrying amount				
Overdue less than 30 days	268,443,427	20,629,571	-	289,072,998
Overdue more than 30 days	-	-	-	-
Carrying amount	**268,443,427**	**20,629,571**	**-**	**289,072,998**
Debt investment securities at FVOCI				
Grade B	100,229,435	-	-	100,229,435
Carrying amount	**100,229,435**	**-**	**-**	**100,229,435**
Loss allowance	(64,985)	-	-	(64,985)

	2019			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments				
Grade B	1,531,597	-	-	1,531,597
Loss allowance	-	-	-	-
Financial guarantee contracts				
Grade B	495,725	-	-	495,725
Loss allowance	-	-	-	-

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

34. Risk management, continued

34.2 Credit risk, continued

Credit quality analysis, continued

The following table sets out the credit quality of debt securities. The analysis is based on external ratings (Moody's).

(In thousands of MNT)	Note	2019	2018
BOM treasury bills			
Grade B	15, 17	60,604,102	100,229,435
		60,604,102	**100,229,435**

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 2019	31 Dec 2018	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

	% of exposure that is subject to collateral requirements		
	31 Dec 2019	31 Dec 2018	Principal type of collateral held
Loans and advances to retail customers			
Mortgages	100	100	Residential property
Credit cards	100	100	Salary and other income
Loans pledged by deposits	100	100	Deposits
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.

34. Risk management, continued

34.2 Credit risk, continued

Collateral and other credit enhancements, continued

Loan and advances to corporate customers, continued

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.

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.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

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

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

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

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 international 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.

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.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Determining whether credit risk has increased significantly, continued

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.

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 40% (2018: 50%) probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 20% (2018: 20%) and 40% (2018: 30%) probability of occurring. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Incorporation of forward-looking information, continued

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.

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.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Modified financial assets, continued

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.

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.

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Measurement of ECL, continued

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

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

	2019			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Balance at 1 January	**1,847,069**	**58,835**	**-**	**1,905,904**
Transfer to Stage 1	-	-		-
Transfer to Stage 2	(1,146)	1,146	-	-
Transfer to Stage 3	(56,902)	-	56,902	-
Net remeasurement of loss allowance	(125,675)	16,172	5,505,810	5,396,307
New financial assets originated or purchased	1,400,257	130,729	117,772	1,648,758
Reversal of impairment allowance	(693,353)	(54,207)	-	(747,560)
Foreign exchange and other movements	38,981			38,981
Balance at 31 December	**2,409,231**	**152,675**	**5,680,484**	**8,242,390**

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Loss allowance, continued

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

	2019			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at FVOCI				
Balance at 1 January	64,985	-	-	64,985
New financial assets originated or purchased	105,740	-	-	105,740
Financial assets that have been derecognised	(64,985)	-	-	(64,985)
Balance at 31 December	**105,740**	**-**	**-**	**105,740**

	2018			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at FVOCI				
Balance at 1 January	**-**	**-**	**-**	**-**
Impact of IFRS 9	2,465	-	-	2,465
Balance at 1 January	2,465	**-**	**-**	2,465
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)	2019	2018
	Stage 1	Stage 1
Cash and cash equivalents (including due from banks)		
Balance at 1 January	76,829	17,603
Net increase in cash and cash equivalents	27,730	59,226
Balance at 31 December	**104,559**	**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% (2018: 10.5%) and foreign currency 12% (2018: 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 2019 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 2019					
	Note	On demand	Up to 6 months	6 months to 1 year	1 to 5 years	Total undiscount-ed financial liabilities	Carrying value
Deposits from financial instit'ns	22	603,721	117,178,184	52,070,797	128,039	169,980,741	162,420,611
Deposits from customers	23	91,146,775	83,831,611	73,731,039	12,140,728	260,850,153	247,995,865
Repurchase agreements	24	-	4,000,000	-	-	4,000,000	3,997,590
Other liabilities	25	-	25,011,883	642,144	2,766,970	28,420,997	28,420,997
Guarantees	29	-	754,907	776,690	-	1,531,597	267,697
Loan commitments	29	-	17,782	477,943	-	495,725	-
		91,750,496	**230,794,367**	**127,698,613**	**15,035,737**	**465,279,213**	**443,102,760**

34. Risk management, continued

34.3 Liquidity risk, continued

Analysis of financial liabilities by remaining contractual maturities, continued

(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	22	14,624,076	94,170,104	78,660,945	37,979,178	-	225,434,303	212,729,196
Deposits from customers	23	47,954,610	33,630,026	74,472,954	1,844	2,431	156,061,865	147,867,031
Repurchase agreements	24	-	30,000,000	-	-	-	30,000,000	29,603,979
Other liabilities	25	-	34,317,996	-	-	-	34,317,996	34,058,596
Guarantees	29		1,008,732				1,008,732	
Loan commitments	29		4	303,676	116,500		420,180	-
		62,578,686	**193,126,862**	**153,437,575**	**38,097,522**	**2,431**	**447,243,076**	**424,258,802**

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 2019 and 31 December 2018. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

As at 31 December 2019 *(In thousands of MNT)*	**Notes**	**MNT**	**USD**	**Euro**	**Other**	**Total**
Financial assets						
Cash and balances with BOM	15	56,324,410	100,833,129	6,630,078	23,950,648	187,738,265
Due from banks	16	20,514,035	1,677,264	3,367	161,139	22,355,805
Financial assets at fair value	17	351,029	-	-	1,514	352,543
Financial assets at fair value through other comprehensive income	17	25,816,251	-	-	-	25,816,251
Loans and advances to customers	18	194,788,384	59,707,064	-	-	254,495,448
Other assets	21	136	-	-	-	136
		297,794,245	162,217,457	6,633,445	24,113,301	490,758,448
Financial liabilities						
Deposits from financial institutions	22	96,281,738	41,591,408	765,250	23,782,215	162,420,611
Deposits from customers	23	110,110,393	131,671,914	6,138,482	75,076	247,995,865
Repurchase agreements	24	3,997,590	-	-	-	3,997,590
Other liabilities	25	27,638,860	572,047	24,971	117,220	28,353,098
		238,028,581	173,835,369	6,928,703	23,974,511	442,767,164
Net position		**59,765,664**	**(11,617,912)**	**(295,258)**	**138,790**	**47,991,284**

34. Risk management, continued

34.4 Market risk, continued

As at 31 December 2018 *(In thousands of MNT)*	**Notes**	**MNT**	**USD**	**Euro**	**Other**	**Total**
Financial assets						
Cash and balances with BOM	15	83,739,610	29,836,139	15,857	4,872,183	118,463,789
Due from banks	16	25,716,795	35,096,308	11,603	157,066	60,981,772
Financial assets at fair value	17	56,917	-	-	1,744	58,661
Financial assets at fair value through other comprehensive income	17	29,389,823	-	-	-	29,389,823
Loans and advances to customers	18	179,106,243	89,726,377	-	20,240,378	289,072,998
Other assets	21	239	-	-	-	239
		318,009,627	**154,658,824**	**27,460**	**25,271,371**	**497,967,282**
Financial liabilities						
Deposits from financial institutions	22	122,652,889	65,209,488	25	24,866,794	212,729,196
Deposits from customers	23	65,402,344	82,453,551	8,600	2,536	147,867,031
Repurchase agreements	24	29,603,979	-	-	-	29,603,979
Other liabilities	25	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**	**6,147,026**	**18,835**	**(59,124)**	**73,790,351**

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 2019 (31 December 2018: 12%), calculated on the basis of total capital and total assets adjusted for their risk, and as 9% as at 31 December 2019 (31 December 2018: 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 2019 and 31 December 2018 were as follows:

(In thousands of MNT)	**31 Dec 2019**	**31 Dec 2018**
Tier 1 capital	81,652,745	77,214,985
Tier 2 capital	596	596
Total Tier 1 and Tier 2 capital	**81,653,341**	**77,215,581**
Risk weighted assets	300,840,415	311,791,346
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	27.14%	24.77%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	27.14%	24.76%

The breakdown of risk weighted assets into the various categories of risk weights as at 31 December 2019 and 2018 are as follows:

(In thousands of MNT)

	2019		**2018**	
%	**Risk Assets**	**Weighted**	**Risk Assets**	**Weighted**
0	236,237,793	-	180,317,425	-
20	10,555,873	2,111,175	26,011,825	5,202,365
50	943,100	471,550	459,135	229,567
70	n/a	n/a	35,370,418	24,759,293
80	51,698,803	41,359,042	n/a	n/a
100	161,361,209	161,361,209	150,099,347	150,099,347
120	n/a	n/a	109,583,979	131,500,774
150	63,691,626	95,537,439	n/a	n/a
Total	**524,488,404**	**300,840,415**	**501,842,129**	**311,791,346**

35. Capital adequacy, continued

Capital management, continued

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 two years to reach this target minimum share capital. The Bank expects to receive the necessary funds from shareholders to achieve the minimum required share capital levels in 2020, subject to the BoM's approvals.

36. Subsequent events

Due to the COVID-19 outbreak globally, various governments across the world including in Mongolia, have put in place preventative restrictions, which significantly affect economic activity and commerce. As a result, economies in many countries, including Mongolia, have been experiencing significant slow-downs and related adverse effects.

As part of the preventive measures, in Mongolia the emergency state commission stopped coal transportation to China for approximately one month in February and March 2020 and increased the inspections at the country's borders. Slower logistics, restrictions on the movement of people, and reduced working hours for businesses, are some of the changes impacting the country's economy and entities' financial performance, including the Bank's customers. Consequential impacts may include reduced financial activities by the Bank's customers, increased defaults by the Bank's borrowers, and claims on the Bank's guarantees and commitments, among others. At the time of issuing the financial statements, the full impact of COVID-19 remains uncertain, and the potential implications of these events for the Bank will only be realized with time.

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.