Transport and Development Bank LLC

Financial Statements

31 December 2020

(With Independent Auditors' Report Thereon)

Contents

Transport and Development Bank LLC

Bank Information

Registered address	Transport and Development Bank LLC Shangri-La office, 15th floor, Olympic Street, Sukhbaatar district, 1st khoroo, Ulaanbaatar, Mongolia
Shareholders as at 31 December 2020	Temuujin. M (56.00%) Radnaabazar. P (33.18%) Oyungerel. D (6.74%) Infrastructure LLC (4.08%)
Board of Directors	Bazarmaa. R Bayantuya. G Gereltuya. Ts Munkhbat. Ts
Chief Executive Officer Chief Financial Officer	Erdenebayar. B Bolor. Ts
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 2020 and the financial performance and cash flows for the year then ended on that date.

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 4 thereto.

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.

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 2020 were authorized for issuance by the Bank's management.

Erdenebayar. B
Chief Executive Officer

Bolor. Ts
Chief Financial Officer

Ulaanbaatar,
Mongolia

Date: 29 March 2021

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

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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 2020, 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

KPMG

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

KPMG Audit LLC
Ulaanbaatar, Mongolia
29 March 2021

Signed by:	Approved by:
Soyolmaa Gungaanyambuu	Mark Eberst
General Director	*Partner*

This report is effective as at 29 March 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholders of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2020

(In thousands of MNT)	Notes	2020	2019
Interest income calculated using the effective interest method	*5*	44,854,170	57,524,891
Interest and similar expense	*5*	(25,089,645)	(39,897,851)
Net interest income		**19,764,525**	**17,627,040**
Fee and commission income	*6*	330,979	665,810
Fee and commission expense	*6*	(436,979)	(393,383)
Net fee and commission income (expense)		**(106,000)**	**272,427**
Net trading income	*7*	2,493,878	871,662
Net income (expense) from other financial instruments at FVTPL	*8*	50,270	(140,356)
Revenue		**22,202,673**	**18,630,773**
Other income	*9a*	683,476	789,517
Impairment losses on financial instruments	*12*	(8,133,610)	(6,413,735)
Personnel expenses	*10*	(3,734,624)	(3,713,667)
Depreciation and amortization	*18, 19*	(2,644,442)	(1,771,354)
Other expenses	*9b*	(2,083,588)	(1,751,692)
Non-operating expenses	*11*	(150,337)	(242,850)
Profit before tax		**6,139,548**	**5,526,992**
Income tax expense	*13*	(665,418)	(1,129,987)
Net profit for the year		**5,474,130**	**4,397,005**
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		18,128	105,740
- Reclassified to profit or loss		(105,740)	(64,985)
Total comprehensive income for the year		**5,386,518**	**4,437,760**

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

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Financial Position
As at 31 December 2020

(In thousands of MNT)	Notes	31 Dec 2020	31 Dec 2019
Assets			
Cash and balances with Bank of Mongolia	*14, 27*	47,652,174	187,738,265
Due from banks	*15*	60,889,978	22,355,805
Financial assets at fair value	*16*	266,720	352,543
Financial assets at fair value through other comprehensive income	*16*	22,930,314	25,816,251
Loans and advances to customers	*17*	216,738,625	254,427,548
Current tax assets	*13*	-	675,263
Property and equipment	*18*	8,930,940	6,226,802
Intangible assets	*19*	458,040	747,771
Deferred tax assets	*13*	-	1,035
Other assets	*20*	2,291,118	26,079,221
Total assets		**360,157,909**	**524,420,504**
Equity and Liabilities			
Liabilities			
Deposits from financial institutions	*21*	112,195,768	163,726,270
Deposits from customers	*22*	87,948,924	248,999,833
Repurchase agreements	*23*	22,949,907	3,998,795
Borrowed funds	*24*	20,620,840	-
Current tax liabilities	*13*	189,441	-
Deferred tax liabilities	*13*	10,356	-
Other liabilities	*25*	7,202,814	26,042,265
Total liabilities		**251,118,050**	**442,767,163**
Equity			
Share capital	*26*	100,000,000	78,000,000
Reserves	*26*	46,646	134,258
Retained earnings		8,993,213	3,519,083
Total equity		**109,039,859**	**81,653,341**
Total equity and liabilities		**360,157,909**	**524,420,504**

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 2020

(In thousands of MNT)	**Share capital (Note 26)**	**Fair value reserve**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2019	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**
Total comprehensive income					
Net profit for the year	-	-	-	5,474,130	5,474,130
Other comprehensive income:					
FVOCI debt investments:					
– Net change in fair value	-	18,128	-	-	18,128
– Reclassified to profit or loss	-	(105,740)	-	-	(105,740)
Transactions with owners, recorded directly in equity					
Contribution from shareholders	22,000,000	-	-	-	22,000,000
Balance at 31 December 2020	**100,000,000**	**18,128**	**28,518**	**8,993,213**	**109,039,859**

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 2020

(In thousands of MNT)	*Notes*	2020	2019
Cash flows from operating activities			
Profit for the year		5,474,130	4,397,005
Adjustment for:			
Depreciation of property and equipment	*18*	2,221,486	1,380,173
Amortisation of intangible assets	*19*	422,956	391,181
Write-off of property and equipment, excluding right-of-use assets	*9, 18*	118,478	-
Impact of lease cancellation	*9, 18*	(26,501)	-
Net interest income	*5*	(19,764,525)	(17,627,040)
Impairment losses, net	*12*	8,133,610	6,413,735
Income tax expense	*13*	665,418	1,129,987
Dividend income		(16,883)	-
Changes in assets and liabilities:			
Loans and advances to customers		29,346,784	26,491,088
Reserves with Bank of Mongolia	*27*	26,778,774	(8,360,894)
BOM treasury bills held on behalf of a third party	*14, 27*	-	30,740,600
Other assets		19,178,353	(25,097,329)
Deposits from financial institutions	*21*	(50,783,606)	(50,308,585)
Repurchase agreements	*23*	18,885,343	(25,606,389)
Deposits from customers	*22*	(161,341,385)	100,128,834
Other liabilities		(18,592,243)	(8,586,509)
Interest received		45,163,012	57,145,746
Interest paid		(24,336,967)	(40,550,861)
Interest on lease liabilities paid		(659,590)	(385,148)
Income taxes paid	*13*	(313,632)	(2,174,031)
Net cash (used in) / provided by operating activities		**(119,446,988)**	**49,521,563**

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

TRANSPORT AND DEVELOPMENT BANK LLC
Statement of Cash Flows, Continued
For the year ended 31 December 2020

(In thousands of MNT)	*Notes*	2020	2019
Cash flows from investing activities			
Acquisition of property and equipment	*18*	(3,812,516)	(736,840)
Acquisition of intangible assets	*19*	(133,225)	(502,383)
Acquisition of financial assets at FVOCI	*16*	(268,020,645)	(767,160,318)
Proceeds from redemption of financial assets at FVOCI	*16*	270,906,582	770,516,293
Proceeds from disposal of financial assets at fair value	*16*	85,823	(76,285)
Dividends received from financial investments		16,883	-
Net cash (used in) / provided by investing activities		**(957,098)**	**2,040,467**
Cash flows from financing activities			
Proceeds from issuance of shares	*26*	22,000,000	-
Borrowed funds received	*24*	20,137,100	-
Payment of lease liabilities	*33*	(1,268,257)	(701,916)
Net cash provided by / (used in) financing activities		**40,868,843**	**(701,916)**
Net change in cash and cash equivalents		**(79,535,243)**	**50,860,114**
Cash and cash equivalents at 1 January	*27*	175,525,398	122,497,183
Effect of foreign exchange rate fluctuation on cash held		4,762,099	2,168,101
Cash and cash equivalents at 31 December	*27*	**100,752,254**	**175,525,398**

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

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(In thousands of MNT)	**Notes**	**2020**	**2019**
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Cash and cash equivalents at 31 December	*27*	**100,752,254**	**175,525,398**

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 2020, the Bank was owned by three individuals and one company. The ultimate controlling party as at 31 December 2020 was an individual, Mr. Temuujin.M.

On 14 January 2021, Mr. Temuujin.M transferred his shareholding to Mr. Radnaabazar.P and related changes in the State Registration Certificate and Bank Charter were registered by the State Registration Office following the approval from the Bank of Mongolia. As a result, the ultimate controlling party changed to Mr. Radnaabazar.P in January 2021.

2. Basis of preparation

(a) Statement of compliance

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

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

The financial statements of the Bank for the year ended 31 December 2020 were authorised for issue by the Directors on 29 March 2021.

(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 4 (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 4 (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:

- Classification of financial assets – Note 4 (b)(ii);
- Impairment of financial assets – Note 4 (b)(vi)

(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).

2. Basis of preparation, continued

(d) Use of judgments and estimates, continued

(iii) Fair value measurement, continued

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

(iv) Going concern

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

3. New or revised standards and interpretations

a) Adoption of new or revised standards and interpretations

In the current year, the Bank has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting period that begins on or after 1 January 2020.

The following amended standards became effective from 1 January 2020, but did not have a material impact on the Bank:

- Amendments to the Conceptual Framework for Financial Reporting;
- Definition of a business – Amendments to IFRS 3;
- Definition of materiality – Amendments to IAS 1 and IAS 8;and
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7.

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

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

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

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37);
- COVID-19 Related Rent Concessions (Amendment to IFRS 16);
- Property, plant and equipment: Proceeds before intended use (Amendments to IAS 16);
- Reference to the Conceptual Framework (Amendments to IFRS 3);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28;
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;and
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

4. 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.

(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.

4. 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.

4. 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.

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.

4. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

iii. Derecognition, continued

Financial assets, continued

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.

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.

4. 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 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.

4. 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.

4. 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.

4. 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.

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.

4. 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.

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.

4. Significant accounting policies, continued

(e) Property and equipment, continued

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	2-3

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

(f) Intangible assets

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

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

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

(g) Impairment of non-financial assets

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

4. Significant accounting policies, continued

(g) Impairment of non-financial assets, continued

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.

4. 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.

4. 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;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk; and
- negative interest on financial liabilities measured at amortised cost.

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

- financial liabilities measured at amortised cost;
- 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;
- negative interest on financial assets measured at amortised cost; and
- interest expense on lease liabilities.

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.

(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.

4. Significant accounting policies, continued

(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

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.

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.

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.

4. Significant accounting policies, continued

(n) Leases, continued

i. Bank acting as a lessee, continued

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.

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.

(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.

(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.

4. Significant accounting policies, continued

(o) Income taxes, continued

(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.

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.

4. Significant accounting policies, continued

(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.

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

(In thousands of MNT)	2020	2019
Loans and advances to customers	37,967,825	41,227,282
Due from banks	3,248,364	4,960,287
Balance with Bank of Mongolia	1,898,944	6,860,624
Financial assets at fair value through other comprehensive income	1,739,037	4,476,698
	44,854,170	**57,524,891**

MNT 1,573,415 thousand (2019: MNT 3,237,618 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 14 and Note 25.

Interest and similar expense

(In thousands of MNT)	2020	2019
Deposits from customers	11,734,020	15,185,260
Deposits from financial institutions	10,251,007	17,734,010
Other liabilities	1,573,415	3,237,618
Interest expense on lease liabilities	659,590	385,148
Borrowed funds	485,551	-
Repurchase agreements	386,062	3,355,815
	25,089,645	**39,897,851**

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

(In thousands of MNT)	2020	2019
Financial assets measured at amortised cost	277,628,603	304,129,487
Financial assets measured at FVOCI	22,934,298	60,604,102
	300,562,901	**364,733,589**
Financial liabilities measured at amortised cost	243,715,439	416,724,898

6. Net fee and commission income (expense)

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

(In thousands of MNT)	2020	2019
Fee and commission income		
Intermediary fees	186,125	387,785
Account service fees	32,313	95,211
Transaction fees	24,547	97,087
Card service fees	12,247	8,696
Loan related service fees	1,144	967
Other fees	74,603	76,064
	330,979	**665,810**

6. Net fee and commission income (expense), continued

(In thousands of MNT)	**2020**	**2019**
Fee and commission expense		
Bank service fees	(206,906)	(118,412)
Card service fees	(121,694)	(173,595)
Other fees	(108,379)	(101,376)
	(436,979)	**(393,383)**
Net fees and commission income (expense)	**(106,000)**	**272,427**

7. Net trading income

(In thousands of MNT)	**2020**	**2019**
Precious metals trading gains	4,268,237	1,208,255
Precious metals trading losses	(2,082,795)	(778,518)
Foreign exchange trading gains	792,737	951,053
Foreign exchange trading losses	(498,099)	(530,447)
Gains on disposal of securities	19,462	21,319
Losses on disposal of securities	(5,664)	-
	2,493,878	**871,662**

8. Net income from other financial instruments at FVTPL

(In thousands of MNT)	**2020**	**2019**
Net income from financial instruments mandatorily measured at FVTPL other than those included in "net trading income"		
Investment securities:		
- Equities	(4,824)	43,828
Derivatives held for risk management:		
- Foreign exchange	55,094	(184,184)
	50,270	**(140,356)**

9. Other income and expenses

9.a Other income is as follows:

(In thousands of MNT)	**2020**	**2019**
Promotion income from BOM	347,974	511,400
Foreign exchange non-trading gains, net	242,132	274,910
Repayment of loans previously written-off	45,142	1,196
Impact of lease cancellation	26,501	-
Other	21,727	2,011
	683,476	**789,517**

9. Other income and expenses, continued

9.b Other expenses are as follows:

(In thousands of MNT)	2020	2019
Insurance	573,314	685,030
Professional service fees	491,137	362,836
Repairs and maintenance	264,826	180,597
Advertising and marketing	138,940	163,382
Short-term and low value lease expenses	130,488	48,587
Security	119,842	67,877
Write-off of property and equipment, excluding right-of-use assets	118,478	-
IT and communication	57,144	52,658
Stationary	43,719	23,935
Labour safety	35,715	83,584
Utilities	34,533	40,085
Transportation	23,171	15,545
Other	52,281	27,576
	2,083,588	**1,751,692**

10. Personnel expenses

(In thousands of MNT)	2020	2019
Salaries	3,250,690	2,935,578
Business trips	221,342	256,815
Contributions to social and health insurance	193,494	371,099
Employees' trainings	23,690	130,418
Other employees' expenses	45,408	19,757
	3,734,624	**3,713,667**

11. Non-operating expenses

(In thousands of MNT)	2020	2019
Hospitality	28,756	138,263
Penalties	2,000	480
Donation	-	8,944
Others	119,581	95,163
	150,337	**242,850**

12. Impairment losses on financial instruments

(In thousands of MNT)	2020	2019
Loans and advances to customers (Note 17)	(7,957,012)	(6,297,505)
Cash and balances with Bank of Mongolia (Note 14)	(68,351)	(7,833)
Due from banks (Note 15)	(5,856)	(19,897)
Other assets	(663)	(47,745)
Loan commitments and financial guarantee contracts	(189,340)	-
New financial assets at FVOCI originated or purchased	(18,128)	(105,740)
Financial assets at FVOCI that have been derecognised*	105,740	64,985
	(8,133,610)	**(6,413,735)**

*In 2020, the Bank reclassified the cumulative gain previously recognised in other comprehensive income on BOM treasury bills amounting to MNT 105,740 thousand (2019: MNT 64,985 thousand) to profit or loss as the related BOM treasury bills were derecognised.

13. Income tax expense

(1) Income tax expense consists of the following:

(In thousands of MNT)	2020	2019
Income tax expense		
Current tax expense	654,027	1,131,022
Deferred tax expense (benefit)	11,391	(1,035)
	665,418	**1,129,987**

(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)	2020	2019
Profit before tax	6,139,548	5,526,992
Tax at statutory rate*	634,887	931,748
Effect of non-deductible expenses	406,916	771,320
Effect of income not subject to income tax	(378,102)	(573,081)
Effect of income tax subject to special tax rate	1,717	-
	665,418	**1,129,987**

(*) 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.

13. Income tax expense, continued

(3) Changes in deferred tax assets (liabilities) for the year ended 31 December 2020 are as follows:

(In thousands of MNT)	Beginning balance	Profit or loss	Ending balance
Property and equipment	15,084	(2,643)	12,441
Intangible assets	(14,049)	18,229	4,180
Unrealised foreign exchange gains	-	(26,977)	(26,977)
	1,035	**(11,391)**	**(10,356)**

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
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 and liabilities, current tax assets and liabilities before offsetting are as follows:

(In thousands of MNT)	2020	2019
Deferred tax assets	-	1,035
Deferred tax liabilities	10,356	-
Current tax assets	-	675,263
Current tax liabilities	189,441	-

(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.

14. Cash and balances with Bank of Mongolia

(In thousands of MNT)	31 Dec 2020	31 Dec 2019
Cash on hand	1,868,191	27,921,285
Current account with BOM (MNT) *	37,027,976	21,256,740
Current account with BOM (Foreign currency) *	8,752,023	76,426,255
Deposit account with BoM (Foreign currency) *	-	27,346,134
Securities (up to 3 months)	3,984	34,787,851
	47,652,174	**187,738,265**

14. Cash and balances with Bank of Mongolia, continued

(*) 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 6% (2019: 10.5%), foreign currency 15% (2019: 12%) of customer deposits for a period of 2 weeks. As at 31 December 2020, the average reserve required by BOM for this period of 2 weeks was MNT 3,110,234 thousand (31 December 2019: MNT 15,421,957 thousand) for local currency and MNT 4,679,664 thousand (31 December 2019: MNT 19,146,715 thousand) for foreign currency maintained in current accounts with BOM.

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 2020**	**31 Dec 2019**
Current account with BOM (MNT)	83,506	1,238
Current account with BOM (Foreign currency)	48,461	56,364
Deposit account with BOM (Foreign Currency)	-	6,014
	131,967	**63,616**

15. Due from banks

(In thousands of MNT)	**31 Dec 2020**	**31 Dec 2019**
Current accounts at banks	1,502,469	1,856,519
Deposits at banks	59,387,509	20,499,286
	60,889,978	**22,355,805**

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

(In thousands of MNT)	**31 Dec 2020**	**31 Dec 2019**
Amortized cost:		
Current accounts at banks	1,043	16,092
Deposits at banks	45,756	24,851
	46,799	**40,943**

16. Financial investments

(In thousands of MNT)	**31 Dec 2020**	**31 Dec 2019**
Financial assets at fair value:		
Equity investments	266,720	352,543
Financial assets at fair value through other comprehensive income:		
BOM treasury bills	22,930,314	25,816,251
	23,197,034	**26,168,794**

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

17. Loans and advances to customers

(In thousands of MNT)	**31 Dec 2020**	**31 Dec 2019**
Working capital loans	136,909,401	150,265,149
Investment loans	73,656,466	101,236,496
Gold 2 national program loans	19,500,000	-
Mortgages	1,310,525	85,632
Consumer loans	513,023	460,690
Loans pledged by deposits	102,066	9,035,525
	231,991,481	**261,083,492**
Accrued interest receivables	1,269,219	1,654,346
Gross loans and advances to customers	**233,260,700**	**262,737,838**
Less: Allowances for loans and advances to customers	(16,473,742)	(8,242,390)
Less: Deferred loan origination fees	(48,333)	(67,900)
Net loans and advances to customers	**216,738,625**	**254,427,548**

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

(In thousands of MNT)	**2020**	**2019**
Beginning balance	8,242,390	1,905,904
Charge for the year (Note 12)	7,957,012	6,297,505
Effect of foreign currency movements	274,340	38,981
Ending balance	**16,473,742**	**8,242,390**

Refer to Note 34.2 for credit risk.

18. 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 2020						
Cost:						
At 31 December 2019	4,688,983	497,330	962,580	573,180	1,509,645	8,231,718
Additions	1,365,052	934,519	452,208	112,311	2,313,478	5,177,568
Write-offs	(276,347)	-	(71,767)	(13,627)	(160,000)	(521,741)
At 31 December 2020	**5,777,688**	**1,431,849**	**1,343,021**	**671,864**	**3,663,123**	**12,887,545**
Accumulated depreciation:						
At 1 January 2020	922,469	194,993	318,186	341,521	227,747	2,004,916
Charge for the year	1,649,969	154,442	94,736	170,503	151,836	2,221,486
Write-offs	(142,881)	-	(71,251)	(13,518)	(42,147)	(269,797)
At 31 December 2020	**2,429,557**	**349,435**	**341,671**	**498,506**	**337,436**	**3,956,605**
Net carrying amount						
31 December 2020	**3,348,131**	**1,082,414**	**1,001,350**	**173,358**	**3,325,687**	**8,930,940**

18. Property and equipment, continued

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. Intangible assets

Changes in intangible assets are as follows:

(In thousands of MNT)	2020	2019
Software		
Acquisition cost:		
Beginning balance	1,542,543	1,040,160
Additions	133,225	502,383
Write-offs	(20,500)	-
Ending balance	**1,655,268**	**1,542,543**
Accumulated amortization:		
Beginning balance	794,772	403,591
Amortization charge	422,956	391,181
Write-offs	(20,500)	-
Ending balance	**1,197,228**	**794,772**
Carrying amount:	**458,040**	**747,771**

20. Other assets

(In thousands of MNT)	31 Dec 2020	31 Dec 2019
Precious metals*	-	22,697,896
Prepayments and advances	1,786,399	3,239,825
Supplies and materials	157,875	141,364
Other	346,844	136
	2,291,118	**26,079,221**

* 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.

21. Deposits from financial institutions

(In thousands of MNT)	31 Dec 2020	31 Dec 2019
Current accounts from banks and financial institutions	130,390	175,598
Deposit accounts from banks and financial institutions	112,065,378	163,550,672
	112,195,768	**163,726,270**

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

22. Deposits from customers

(In thousands of MNT)	31 Dec 2020	31 Dec 2019
Government sector deposits:		
Current accounts	358	8,763,845
Demand deposits	627,672	-
Time deposits	30,042,669	72,138,730
Private sector:		
Current accounts	9,455,818	48,439,601
Demand deposits	5,230,357	578,187
Time deposits	6,385,541	13,703,593
Individuals:		
Current accounts	419,635	843,506
Demand deposits	1,094,624	32,817,478
Time deposits	34,692,250	71,714,893
	87,948,924	**248,999,833**

23. Repurchase agreements

Contract party	Sold date	Maturity date	Interest rate	31 Dec 2020 MNT'000
Domestic bank	30 Nov 2020	25 Jan 2021	6.50%	10,056,265
Domestic bank	25 Dec 2020	4 Jan 2021	6.00%	7,996,061
Domestic bank	31 Dec 2020	4 Jan 2021	6.00%	4,897,581
				22,949,907

Contract party	Sold date	Maturity date	Interest rate	31 Dec 2019 MNT'000
Domestic bank	31 Dec 2019	2 Jan 2020	11.00%	3,998,795
				3,998,795

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.

24. Borrowed funds

Borrowed funds from government organizations	Program	31 Dec 2020 MNT'000
Bank of Mongolia	Gold 2 national program	19,983,740
Bank of Mongolia	Mortgage funding program	637,100
		20,620,840

Borrowings are from the Bank of Mongolia to finance mortgages and provide financial support to gold mining companies. Borrowings are unsecured.

24. Borrowed funds, continued

Gold 2 national program

On 25 June 2020, the Bank entered into a long-term finance source agreement with the Bank of Mongolia for the purpose of financing gold mining companies under the Gold 2 national program. Under the Gold 2 national program, the Bank received funding from the Bank of Mongolia, with interest of 6% to 9% per annum and the Bank issued loans with interest of additional 3%. Maturity dates of the borrowed funds are 24 months from the issuance.

Mortgage funding program

On 25 May 2020, the Bank entered into a mortgage loan finance source agreement with the Bank of Mongolia for the purpose of financing mortgages under the Mortgage funding program. Under the Mortgage funding program, the Bank received funding from the Bank of Mongolia, which bears interest rate of 1% per annum and the Bank issued mortgage loans at an interest rate of 6% and 8%.

25. Other liabilities

(In thousands of MNT)	**31 Dec 2020**	**31 Dec 2019**
Payables to Deposit Insurance Corporation	-	21,751,518
Lease liabilities	3,530,591	3,643,444
Money transfer liabilities	2,595,064	98,939
Restoration cost liabilities	400,579	347,154
Commitments	189,340	-
Other tax payables	143,780	96,961
Delay on clearing settlement	69,845	19,729
Derivative liabilities	-	12,747
Other payables	273,615	71,773
	7,202,814	**26,042,265**

(In thousands of MNT)	**31 Dec 2020**	**31 Dec 2019**
Non-current	2,376,015	2,766,970
Current	4,826,799	23,275,295
	7,202,814	**26,042,265**

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 18 November 2020, the contract expired. Under 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 2020	31 Dec 2019	31 Dec 2020 MNT'000	31 Dec 2019 MNT'000
Beginning balance	78,000,000	78,000,000	78,000,000	78,000,000
Issued during the year	22,000,000	-	22,000,000	-
Ending balance	**100,000,000**	**78,000,000**	**100,000,000**	**78,000,000**

At 31 December 2020, 100,000,000 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 approval dated 16 September 2020, the Bank increased its share capital by MNT 22,000,000 thousand. As at 31 December 2020 and 31 December 2019, 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 2020	31 Dec 2019
Cash and balances with BOM	*14*	47,648,190	152,950,414
Due from banks	*15*	60,889,978	22,355,805
BOM treasury bills	*14*	3,984	34,787,851
		108,542,152	**210,094,070**
Less: Minimum reserve with BOM not available to finance the Bank's day to day operations		(7,789,898)	(34,568,672)
Total cash and cash equivalents for the statement of cash flows		**100,752,254**	**175,525,398**

Cash equivalents are liquid assets convertible into cash within 90 days and without restrictions. Restricted cash equivalents are not included in cash and cash equivalents.

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 at which they are 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 2020				
Financial assets				
BOM treasury bills	-	3,984	-	3,984
Equity investments at fair value	253,369	-	13,351*	266,720
Financial assets at fair value through other comprehensive income	-	22,930,314	-	22,930,314
	253,369	**22,934,298**	**13,351**	**23,201,018**
Financial liabilities	-	-	-	-
	-	**-**	**-**	**-**
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**

* 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 are not 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 2020**	**31 Dec 2019**
Contingent liabilities		
Performance and tender guarantees	921,229	1,531,597
Commitments		
Undrawn commitments to lend	814,212	495,725
	1,924,781	**2,027,322**

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

Contingent liabilities, continued

Penalty exposure

Development Bank of Mongolia ("DBM") has requested the Bank to pay a penalty of MNT 1.9 billion, on the grounds that the Bank did not pay the deposit amounts upon their immediate recall, although the Bank did pay the deposit with the interest within their initial contractual periods. The Bank does not accept the invoiced penalty and the negotiation with DBM is in progress.

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. In accordance with BOM approval dated 16 September 2020, the Bank increased additionally its share capital by MNT 22,000,000 thousand based on the contribution by a shareholder. As a result of the contribution by the shareholder, the Bank achieved the minimum required share capital levels in 2020 with related BOM's approval.

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 months' 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.

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.

29. Contingent liabilities and commitments, continued

Tax contingencies

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

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

COVID-19

Due to the COVID-19 pandemic, governments across the world including in Mongolia, put in place preventative measures and restrictions, which have significantly affected economic activity and commerce. As a result, economies in many countries, including Mongolia, have been experiencing economic recessions and related adverse effects.

In Mongolia the Government has taken various preventative measures in 2020, and 2021 to date, including lockdowns, border closures, restricted entry to the country, and increased inspections of goods at the country's borders. Slower logistics, restrictions on the movement of people and reduced working hours for businesses, are some of the changes negatively impacting the country's economy, and gross domestic product decreased by 5.4% in 2020. In response, the Mongolian Government has initiated a major economic support program for businesses and individuals including reduced taxes, subsidized or free energy for most households, and other economic stimulus, and government ministries and regulators have encouraged financial institutions to allow longer repayment times for past-due borrowings, increased tolerance for forbearance, and relaxed the requirements for classifying loans as non-performing.

With respect to the decisions by the Government and the State special commission relating to COVID-19 pandemic impact, the Bank's management discussed and implemented appropriate changes to the day-to-day operations in a timely manner. For instance, the Bank took a series of actions to ensure business continuity and aimed to completed transactions and settlements without hurdles during the strict lockdown enforced by the authorities in the fourth quarter of 2020. The Bank's Human resources department developed and regularly monitored appropriate controls and guidelines based on disease prevention recommendations to reduce employee health risk arising from the COVID-19 pandemic.

29. Contingent liabilities and commitments, continued

COVID-19, continued

Further, when remote work is required in line with the decision of the State special commission, the Bank provided information security guidelines to employees and conducted relevant controls remotely. To continuously improve these steps, the Bank is currently identifying control deficiencies in the control components and creating a plan to make improvements based on international practices. Under the Government decision of 18 November 2020, repayments of Government supported mortgage loans (issued at 5-8 percent interest rates) can be postponed until 1 July 2021. Accordingly, MNT 861 million being 68% percent of the Bank's total mortgage portfolio repayments, were rescheduled leading to a classification to stage 2 and an additional mortgage loan loss reserve of MNT 6.7 million within stage 2.

The continuing COVID-19 pandemic impacts, and related government prevention measures, create significant risks which may impact the Bank's financial performance in the future. 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.

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 2020			
Financial assets			
Cash and balances with BOM	47,652,174	-	47,652,174
Due from banks	60,889,978	-	60,889,978
Financial assets at fair value	253,369	13,351	266,720
Financial assets at fair value through other comprehensive income	22,930,314	-	22,930,314
Loans and advances to customers	129,060,385	87,678,240	216,738,625
Other assets[1]	346,844	-	346,844
	261,133,064	87,691,591	348,824,655
Financial liabilities			
Deposits from financial institutions	(112,195,768)	-	(112,195,768)
Deposits from customers	(87,544,334)	(404,590)	(87,948,924)
Repurchase agreements	(22,949,907)	-	(22,949,907)
Borrowed funds	(7,620,840)	(13,000,000)	(20,620,840)
Other liabilities	(4,826,799)	(2,376,015)	(7,202,814)
	(235,137,648)	(15,780,605)	(250,918,253)
	25,995,416	**71,910,986**	**97,906,402**

30. Maturity analysis of assets and liabilities, continued

(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	188,839,209	65,588,339	254,427,548
Other assets[1]	22,698,032	-	22,698,032
	447,786,950	65,601,494	513,388,444
Financial liabilities			
Deposits from financial institutions	(163,626,040)	(100,230)	(163,726,270)
Deposits from customers	(239,003,162)	(9,996,671)	(248,999,833)
Repurchase agreements	(3,998,795)	-	(3,998,795)
Other liabilities	(23,275,295)	(2,766,970)	(26,042,265)
	(429,903,292)	(12,863,871)	(442,767,163)
	17,883,658	**52,737,623**	**70,621,281**

(*1) Prepayments and inventory supplies were excluded.

31. Operating segments

The Bank voluntarily adopted to report operating segments in the financial statements, 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 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 2020. For reporting purposes, cost centers are not considered as reportable segments. Information related to each reportable segment is set out below.

2020: *(In thousands of MNT)*	**Corporate Banking**	**Treasury**	**Investment Banking**	**Private Banking**	**China Cooperation**	**Others**	**Total**
Interest income	37,940,223	6,886,345	-	-	-	27,602	44,854,170
Interest expense	(13,014,018)	(11,020,457)	-	-	-	(1,055,170)	(25,089,645)
Net interest income (expense)	**24,926,205**	**(4,134,112)**	**-**	**-**	**-**	**(1,027,568)**	**19,764,525**
Inter-segment interest revenue (expense)	(14,853,541)	14,413,943	-	-	-	439,598	-
After inter-segment interest revenue (expense)	**10,072,664**	**10,279,831**	**-**	**-**	**-**	**(587,970)**	**19,764,525**
Net fee and commission income (expense)	123,074	(24,957)	3,797	-	-	(207,914)	(106,000)
Net trading income and net income from other financial instruments at FVTPL	-	2,537,443	(5,231)	-	-	11,936	2,544,148
Total operating income	**10,195,738**	**12,792,317**	**(1,434)**	**-**	**-**	**(783,948)**	**22,202,673**
Other income	45,142	502,494	16,883	-	-	118,957	683,476
Operating expenses	(345,610)	(290,682)	(143,474)	(5,639)	(137,140)	(4,895,667)	(5,818,212)
Depreciation and amortization	(25,754)	(8,393)	(4,802)	(173)	(1,455)	(2,603,865)	(2,644,442)
Non-operating expense	(3,235)	(32,625)	(300)	-	(763)	(113,414)	(150,337)
Total operating and non-operating expense	(374,599)	(331,700)	(148,576)	(5,812)	(139,358)	(7,612,946)	(8,612,991)
Total income before impairment losses	**9,866,281**	**12,963,111**	**(133,127)**	**(5,812)**	**(139,358)**	**(8,277,937)**	**14,273,158**
Impairment losses on financial assets	(8,147,015)	13,405	-	-	-	-	(8,133,610)
Profit (loss) before tax	**1,719,266**	**12,976,516**	**(133,127)**	**(5,812)**	**(139,358)**	**(8,277,937)**	**6,139,548**
Inter-segment income (expense)	(1,193,345)	(1,312,343)	(674,802)	(41,265)	(475,716)	3,697,471	-
After inter-segment income (expense)	**525,921**	**11,664,173**	**(807,929)**	**(47,077)**	**(615,074)**	**(4,580,466)**	**6,139,548**
Income tax expense							(665,418)
Net profit for the year							**5,474,130**
Segment assets	**216,637,463**	**131,492,852**	**270,060**	**27,146**	**22,084**	**11,708,304**	**360,157,909**
Segment liabilities	**84,837,827**	**145,371,278**	**-**	**-**	**-**	**20,908,945**	**251,118,050**
Capital expenditures	3,756	6,948	-	193,896	20,553	2,795,100	3,020,253

31. Operating segments, continued

2019: *(In thousands of MNT)*	**Corporate Banking**	**Treasury**	**Investment Banking**	**Private Banking**	**China Cooperation**	**Others**	**Total**
Interest income	41,224,285	16,297,609	-	-	-	2,997	57,524,891
Interest expense	(17,094,684)	(22,322,651)	(2,324)	-	-	(478,192)	(39,897,851)
Net interest income (expense)	**24,129,601**	**(6,025,042)**	**(2,324)**	**-**	**-**	**(475,195)**	**17,627,040**
Inter-segment interest revenue (expense)	(15,833,202)	15,726,029	4,966	-	-	102,207	-
After inter-segment interest revenue (expense)	**8,296,399**	**9,700,987**	**2,642**	**-**	**-**	**(372,988)**	**17,627,040**
Net fee and commission income (expense)	257,359	218,287	(2,000)	-	-	(201,219)	272,427
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 expenses	(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	**254,486,014**	**260,226,453**	**348,305**	**1,904,901**	**6,491**	**7,448,340**	**524,420,504**
Segment liabilities	**274,387,028**	**161,199,468**	**-**	**-**	**-**	**7,180,667**	**442,767,163**
Capital expenditures	67,548	4,081	5,477	-	1,910	1,094,607	1,173,623

32. Related party disclosures

(1) As at 31 December 2020, the main related parties to the Bank are as follows:

Name of party	Relationship at 31 December 2020
a. Shareholders	Temuujin. M (56.00%) Oyungerel. D (6.74%) Radnaabazar. P (33.18%) Infrastructure LLC (4.08%)
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 2020**	**31 Dec 2019**
Loans and advances to customers:			
Loans	Shareholders	500	-
	Companies and individuals related to shareholders	17,356,410	12,462,037
	Management	500	23,147
	Others	222,481	47,700
		17,579,891	**12,532,884**
Deposits and current accounts:			
Deposits	Shareholders	652	22,077,450
	Companies and individuals related to shareholders	32,322	5,728
	Management	136,238	50,632
	Companies and individuals related to management	403,652	123,611
	Others	1,051,434	197,931
		1,624,298	**22,455,352**

32. Related party disclosures, continued

(2) Related party balances, continued

(In thousands of MNT)	**Relationship**	**31 Dec 2020**	**31 Dec 2019**
Deposits and current accounts:			
Current accounts	Shareholders	65,956	48,910
	Companies and individuals related to shareholders	268,991	264,812
	Management	1,608	4,012
	Companies and individuals related to management	-	88
	Others	2,450	238
		339,005	**318,060**
Commitments:			
Credit line undrawn	Companies and individuals related to shareholders	225,606	6,726
		225,606	**6,726**

(3) Related party transactions

(In thousands of MNT)	**Relationship**	**2020**	**2019**
Loans and advances to customers:			
Loans issued to	Shareholders	(500)	-
	Companies and individuals related to shareholders	(37,607,406)	(17,016,250)
	Management	(74,550)	(20,950)
	Others	(276,750)	(337,249)
Loans repaid from	Companies and individuals related to shareholders	32,713,033	9,163,972
	Management	97,197	650
	Companies and individuals related to management	-	167,393
	Others	101,969	409,342
Interest income from loans issued	All related parties	1,476,970	1,113,762
Interest expense	All related parties	249,040	123,603
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)	2020	2019
Short term employee benefits:		
Salaries	639,333	640,834
Bonus and compensation	13,500	41,831
Contribution to social and health fund	38,692	84,997
	691,525	**767,662**

33. Leases

See accounting policy in Note 4 (n).

Leases as lessee

The Bank leases a number of offices and branches, 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.

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 18).

(In thousands of MNT)	2020	2019
Balance at 1 January	3,766,514	2,620,253
Additions	1,365,052	2,068,730
Depreciation charge for the year	(1,649,969)	(922,469)
Write-off	(133,466)	-
Balance at 31 December	**3,348,131**	**3,766,514**

ii. Amounts recognised in profit or loss

(In thousands of MNT)	2020	2019
Interest on lease liabilities	659,590	385,148
Expenses relating to short-term leases	130,488	48,587

iii. Amounts recognised in statement of cash flows

(In thousands of MNT)	2020	2019
Cash outflows for leases	1,927,847	1,087,064

34. Risk management

34.1 Introduction

The Bank manages credit risk, market risk, liquidity risk, operational and information technology risk, and compliance risk. Effective, efficient and iterative risk management is important for the Bank to achieve its strategic goals, improve its profitability and ensure continuous and proper operation of the Bank.

The Bank's risk management policy is approved by the Board of Directors, and the Risk Management Units are responsible for setting risk policies, procedures, guideline and limit proposals, while each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

Risk management structure

The Board of Directors are responsible for approving the Bank's risk management policy, and the committees are responsible for performing the functions set forth in the risk policy.

Board Risk Management Committee

The Board Risk Management Committee approves the Bank's risk management framework policy in line with the Bank's overall risk exposure and monitors its implementation. The Board Risk Management Committee regularly reviews significant risks and issues reported periodically by the Risk Management Committee of the Bank and also ensures that the Bank adheres to risk appetite and applicable limits established by the Board.

Board Audit Committee

The Board Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for the integrity of the Bank's financial statements and disclosures, its compliance with legal and regulatory requirements, and internal controls and audit functions.

Executive Management Committee

The Executive Management Committee which consists of all the executive management of the Bank holds weekly meetings to discuss and decide the Bank's strategic issues and planning required for sustainable business management.

Risk Management Committee

The Risk Management Committee meets twice a month to monitor the level of losses and significant risks, assesses the Bank's risk tolerance, prevent and reduce risks, and monitor the reliability of the control framework by risk universe defined in the risk management policy. Stress tests for core risks are monitored to improve preventive and controlling actions in the Risk Management Committee.

34. Risk management, continued

34.1 Introduction, continued

Assets and Liability Committee

Assets and Liability Committee is responsible for providing centralized asset and liability management of the funding, liquidity, foreign currency exposure, maturity and interest rate risks to which the Bank is exposed.

Credit Committee

The Bank's Credit Committee is responsible for loan approval and monitoring in accordance with the Bank's Credit policy, monitoring the quality of the loan portfolio, preventing the risk of default, and taking decisions related to collateral and overdue and non-performing loans.

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.

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 measures risk using historical data utilizing relevant statistical models for core risk types.

In addition, the risk management units monitor the implementation of the Bank of Mongolia's relevant prudential ratios for all risk types and report the performance of the risk limits set by the Risk Management Committee with the stress tests to the committee.

Risk mitigation

The Bank implements "Three Lines of Defense" to mitigate risk and provide proactive control and the business units manage their own risks within the limits set by the Risk Management Committee. Risk management units define the potential risks and ways to mitigate them, formulate and regulate relevant policies, procedures and limits, and monitor the performance of limits.

34. Risk management, continued

34.2 Credit risk

Excessive Risk Concentration

The Bank follows prudential ratio limits issued by the Bank of Mongolia and internal policy, in order to manage credit and concentration risk. The Internal standards set in order to limit concentration risk are as follows;

i. The maximum amount of the overall credit portfolio shall not exceed 70% of the total assets of the Bank.
ii. The maximum amount of the credit exposures issued and other credit equivalent assets to an individual and his/her related persons shall not exceed 18% of the capital of the Bank.
iii. The maximum amount of the credit exposures issued and other credit equivalent assets to shall not exceed 5% of the capital for one related person the Bank, and the aggregation of overall lending to the related persons shall not exceed 20% of the capital of the Bank.
iv. The share of credit exposures to a single economic sector shall not exceed 50% of the total credit exposure.
v. The share of foreign currency credit exposure shall not exceed 40% of the total credit exposure.
vi. The total amount of assets to large borrowers determined in accordance with the Policy for calculating, securing, reporting and supervising the Bank's operations shall not exceed 280% of the capital.
vii. Total non-performing loans shall not exceed average of all commercial banks.

In addition to the concentration risk, the Bank manages credit risk by measuring and monitoring economic conditions, legal risks, borrower risk, and collateral risk.

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 2020	31 Dec 2019
Cash and balances with BOM (excluding cash on hand)	14	45,783,983	159,816,980
Due from banks	15	60,889,978	22,355,805
Financial assets at fair value through other comprehensive income	16	22,930,314	25,816,251
Loans and advances to customers	17	216,738,625	254,427,548
Total on balance sheet		**346,342,900**	**462,416,584**
Guarantees	29	1,110,569	1,531,597
Commitments	29	814,212	495,725
Total off-balance sheet		**1,924,781**	**2,027,322**
Total credit risk exposure		**348,267,681**	**464,443,906**

34. Risk management, continued

34.2 Credit risk, continued

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

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

Risk concentrations by industry

The table below shows the analysis per industry sector of the Bank's loans and advances to customers (Note 17) in gross amounts.

	31 Dec 2020		31 Dec 2019	
(In thousands of MNT)	**Gross maximum exposure**	**%**	**Gross maximum exposure**	**%**
Trading	53,550,161	23.0%	58,046,829	22.1%
Mining and exploration	96,507,542	41.4%	79,349,099	30.2%
Transportation	27,476,186	11.8%	39,774,527	15.1%
Leasing	-	0.0%	23,375,777	8.9%
Construction	35,682,585	15.3%	37,805,654	14.4%
Real estate	2,932,253	1.3%	2,306,765	0.9%
Hospitality	-	0.0%	5,926,327	2.3%
Electricity & Power	3,690,688	1.6%	6,867,249	2.6%
Communications	7,033	0.0%	115,020	0.0%
Other	13,365,919	5.7%	9,102,691	3.5%
	233,212,367	**100.0%**	**262,669,938**	**100.0%**
Impairment allowances	(16,473,742)		(8,242,390)	
	216,738,625		**254,427,548**	

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 4 (b)(vi).

	2020			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost				
Grade AA	270,363	-	-	270,363
Grade A	52,484	-	-	52,484
Grade BB	19,703,427	4,480,480	-	24,183,907
Grade B	17,977,032	57,349,188	-	75,326,220
Grade CC	22,432,749	70,661,148	-	93,093,897
Grade C	858,051	24,360,803	-	25,218,854
Grade DD	-	-	5,991,293	5,991,293
Grade D	-	-	9,075,349	9,075,349
Loss allowance	(796,855)	(4,320,211)	(11,356,676)	(16,473,742)
Carrying amount	**60,497,251**	**152,531,408**	**3,709,966**	**216,738,625**

	2019			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost				
Grade AA	25,404,307	-	-	25,404,307
Grade A	52,140,968	-	-	52,140,968
Grade BB	70,343,669	7,316,983	2,261,609	79,922,261
Grade B	70,545,685	10,837,197	6,203,870	87,586,752
Grade CC	8,291,822	-	1,197,606	9,489,428
Grade C	-	-	8,126,222	8,126,222
Loss allowance	(2,347,231)	(152,675)	(5,742,484)	(8,242,390)
Carrying amount	**224,379,220**	**18,001,505**	**12,046,823**	**254,427,548**

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.

	2020			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to retail customers at amortized cost – gross carrying amount				
Overdue less than 30 days	749,413	857,556	-	1,606,969
Overdue 30-89 days	-	13,561	-	13,561
Overdue 90-179 days	-	-	306,849	306,849
Loss allowance	(10,269)	(20,250)	(227,959)	(258,478)
Carrying amount	**739,144**	**850,867**	**78,890**	**1,668,901**
Loans and advances to corporate customers at amortized cost – gross carrying amount				
Overdue less than 30 days	60,544,693	150,736,461	-	211,281,154
Overdue 30-89 days	-	5,244,041	4,005,684	9,249,725
Overdue 90-179 days	-	-	1,270,726	1,270,726
Overdue 180-360 days	-	-	1,120,412	1,120,412
Overdue more than 360 days	-	-	8,362,971	8,362,971
Loss allowance	(786,586)	(4,299,961)	(11,128,717)	(16,215,264)
Carrying amount	**59,758,107**	**151,680,541**	**3,631,076**	**215,069,724**
Debt investment securities at FVOCI				
Grade B	22,934,298	-	-	22,934,298
Carrying amount	**22,934,298**	**-**	**-**	**22,934,298**
Loss allowance recognized in OCI	87,612	-	-	87,612

34. Risk management, continued

34.2 Credit risk, continued

Credit quality analysis, continued

	2019			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to retail customers at amortized cost – gross carrying amount				
Overdue less than 30 days	9,718,177	-	-	9,718,177
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Loss allowance	(20,895)	-	-	(20,895)
Carrying amount	**9,697,282**	**-**	**-**	**9,697,282**
Loans and advances to corporate customers at amortized cost – gross carrying amount				
Overdue less than 30 days	217,008,273	18,154,180	-	235,162,453
Overdue 30-89 days	-	-	6,203,870	6,203,870
Overdue 90-179 days	-	-	4,458,090	4,458,090
Overdue 180-360 days	-	-	1,776,788	1,776,788
Overdue more than 360 days	-	-	5,350,560	5,350,560
Loss allowance	(2,326,336)	(152,675)	(5,742,484)	(8,221,495)
Carrying amount	**214,681,937**	**18,001,505**	**12,046,824**	**244,730,266**
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

(In thousands of MNT)	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loan commitments				
Grade B	814,212	-	-	814,212
Loss allowance	-	-	-	-
	814,212	**-**	**-**	**814,212**
Financial guarantee contracts				
Grade B	921,229	-	189,340	1,110,569
Loss allowance	-	-	(189,340)	(189,340)
	921,229	**-**	**-**	**921,229**

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

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**	**2020**	**2019**
BOM treasury bills			
Grade B	14, 16	22,934,298	60,604,102
		22,934,298	**60,604,102**

34. Risk management, continued

34.2 Credit risk, continued

Collateral and other credit enhancements

The Bank maintains collateral coverage in order to mitigate credit risk. The following table sets out the principal types of collateral held against different types of financials assets.

Type of credit exposure

	% of exposure that is subject to collateral requirements		
	31 Dec 2020	**31 Dec 2019**	**Principal type of collateral held**
Loans and advances to corporate customers			
Investment loans	100	100	All types of real estate, movable assets, revenue, equipment, mining license, guarantee, warranty
Working capital loans	100	100	All types of real estate, movable assets, revenue, equipment, mining license, guarantee, warranty
Credit lines	100	100	All types of real estate, movable assets, revenue, equipment, mining license, guarantee, warranty

	% of exposure that is subject to collateral requirements		
	31 Dec 2020	**31 Dec 2019**	**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 Bank takes collateral in the form of real estate, movable assets, intangible assets which are not prohibited by law, legally owned and transferred by proxy.

If the borrower's collateral is not sufficient to meet its obligations under the agreement, a third party may issue collateral, guarantees or warranties to cover the loan in full or in part.

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.

34. Risk management, continued

34.2 Credit risk, continued

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, or restructured and internal and external ratings decreased by two or more grades, financial asset is assigned to Stage 2; if more than 90 days past due and thus defaulted, 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 judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default

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.

Borrower's financial condition, use of credit, restructuring of contract, repayment history, stability of income, economic movement, reference from law enforcement agencies are considered in order to determine the impairment of financial asset.

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	5.318%	B3
A	5.318%	B3
BB	5.205%	Caa1
B	5.205%	Caa1
CC	11.430%	Caa2
C	23.440%	Caa3
DD	46.740%	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	5.318%	CC	11.430%
A	5.318%	C	23.440%
BB	5.205%	DD	46.740%
B	5.205%	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 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.

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:

- Insolvency: The borrower is considered insolvent for the following reasons:
  - o Significant financial deterioration
  - o Having difficulty pay interest or principal payment
  - o Obligator is likely to go bankrupt or other financial restructuring
- Past due more than 90 days.

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 20% (2019: 40%) probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 0% (2019: 20%) and 80% (2019: 40%) probability of occurring respectively. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The Bank updated the weighting of upside, downside and base case economic scenarios in response to COVID-19 and considered updated scenarios to better reflect the impact of the pandemic.

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

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. Exposures with no past due and no restructuring are graded as stage 1 exposure. Exposures past due within 90 days and restructured loans are be graded as stage 2 exposures. Exposures past due more than 90 days or defaulted are be graded as stage 3 exposure.

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 magnitude of the likely loss if there is a default. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery cost 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 the 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, 1920-2017 - Moody's Sub-Sovereign Default and recovery rates, 1983-2018H - Moody's structured rating transitions, October 2019 - Moody's structured rating transitions, October 2020	- Moody's Corporate Default and Recovery rates, 1920-2017 - Moody's Sub-Sovereign Default and recovery rates, 1983-2018H - Basel's Quantitative Impact Study 3, Technical Guidance, LGD Foundation Approach

34. Risk management, continued

34.2 Credit risk, continued

Amounts arising from ECL, continued

Loss allowance

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

	2020			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Balance at 1 January	**2,409,231**	**152,675**	**5,680,484**	**8,242,390**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(1,122,967)	1,122,967	-	-
Transfer to Stage 3	-	(171)	171	
Net remeasurement of loss allowance	195	2,564,190	1,814,752	4,379,137
New financial assets originated or purchased	670,060	747,207	3,509,721	4,926,988
Reversal of impairment allowance	(1,177,881)	(277,538)	106,307	(1,349,112)
Foreign exchange and other movements	18,217	10,881	245,241	274,339
Balance at 31 December	**796,855**	**4,320,211**	**11,356,676**	**16,473,742**

	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

	2020			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at FVOCI				
Balance at 1 January	105,740	-	-	105,740
New financial assets originated or purchased	18,128	-	-	18,128
Financial assets that have been derecognised	(105,740)	-	-	(105,740)
Balance at 31 December	**18,128**	**-**	**-**	**18,128**

	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**

(In thousands of MNT)	**2020**	**2019**
	Stage 1	**Stage 1**
Cash and cash equivalents (including due from banks)		
Balance at 1 January	104,559	76,829
Net increase in cash and cash equivalents	74,207	27,730
Balance at 31 December	**178,766**	**104,559**

34.3 Liquidity risk

The Bank is exposed to the liquidity risk that the Bank will be unable to meet its payment obligations to its counterparties in a timely manner or significant amount of expense is incurred in performing the obligation. In order to prevent and reduce liquidity risk, the Bank complies with the Bank of Mongolia's prudential ratios and calculates monthly liquidity stress tests and reports to the Risk Management Committee.

34. Risk management, continued

34.3 Liquidity risk, continued

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2020 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 2020					
	Note	**On demand**	**Up to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Total undiscounted financial liabilities**	**Carrying value**
Deposits from financial institutions	21	1,693,248	100,302,350	11,390,970	-	113,386,568	112,195,768
Deposits from customers	22	26,828,464	41,499,799	22,279,167	459,864	91,067,294	87,948,924
Repurchase agreements	23	-	23,000,000	-	-	23,000,000	22,949,907
Borrowed funds	24	-	-	637,100	22,717,973	23,355,073	20,620,840
Other liabilities	25	3,127,866	143,780	1,555,154	2,376,014	7,202,814	7,202,814
Guarantees	29	982,939	17,250	110,380	-	1,110,569	22,969
Loan commitments	29	814,212	-	-	-	814,212	-
		33,446,729	**164,963,179**	**35,972,771**	**25,553,851**	**259,936,530**	**250,941,222**

34. Risk management, continued

34.3 Liquidity risk, continued

Analysis of financial liabilities by remaining contractual maturities, continued

(In thousands of MNT)		31 Dec 2019					
	Note	**On demand**	**Up to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Total undiscounted financial liabilities**	**Carrying value**
Deposits from financial institutions	21	603,721	117,178,184	52,070,797	128,038	169,980,740	163,726,270
Deposits from customers	22	91,442,615	83,831,611	73,731,039	12,140,729	261,145,994	248,999,833
Repurchase agreements	23	-	4,000,000	-	-	4,000,000	3,998,795
Other liabilities	25	190,441	109,708	22,975,146	2,766,970	26,042,265	26,042,265
Guarantees	29	-	754,907	776,690	-	1,531,597	267,697
Loan commitments	29	495,725	-	-	-	495,725	-
		92,732,502	**205,874,410**	**149,553,672**	**15,035,737**	**463,196,321**	**443,034,860**

34. Risk management, continued

34.4 Market risk

The Bank is exposed to market risk which is a potential loss that the Bank may bear due to a change in the value of a financial instrument it holds caused by the likely fluctuation of market factors.

Interest rate risk

Interest rate risk is the adverse effect of changes in market interest rates on the Bank's income and economic value when there is a difference between positions that are sensitive to changes in interest rates held by the Bank. Losses due to changes in market interest rates and the difference between the Bank's interest rate sensitive assets and liabilities directly affect the Bank's projected net interest income. The Market Risk Management Department calculates on a weekly basis the ratio of losses from interest rate sensitive assets and liabilities that may arise from changes in interest rates to the Bank's projected net interest income. In addition, interest rate stress tests are calculated on a monthly basis and reported to the Risk Management Committee, which monitors interest rate risk levels within the limits set by the Risk Committee.

Currency risk

Currency risk is the loss from fluctuations in foreign exchange rates on the valuation of an open foreign currency position and foreign exchange trading. In order to reduce currency risk, the Bank complies the Bank of Mongolia's prudential ratios, and uses the Value at risk (VAR) to measure the maximum amount of losses that can be lost from an open position on a daily basis. Moreover, the Bank monitors the volume of transactions with individuals, foreign and domestic banks and organizations, and losses from the trading and revaluation within the limits approved by the Risk Management Committee. The performance of the limit is reported to the Asset and Liabilities Committee, while the currency risk stress test is presented to the Risk Management Committee.

34. Risk management, continued

34.4 Market risk, continued

The table below summarizes the Bank's exposure to foreign exchange risk at 31 December 2020 and 31 December 2019. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

As at 31 December 2020

(In thousands of MNT)	Notes	MNT	USD	Euro	Other	Total
Financial assets						
Cash and balances with BOM	14	37,836,122	6,405,426	3,242,280	168,346	47,652,174
Due from banks	15	49,398,784	5,783,888	5,601,617	105,689	60,889,978
Financial assets at fair value	16	266,720	-	-	-	266,720
Financial assets at fair value through other comprehensive income	16	22,930,314	-	-	-	22,930,314
Loans and advances to customers	17	155,678,124	61,060,501	-	-	216,738,625
Other assets	20	341,722	5,122	-	-	346,844
		266,451,786	73,254,937	8,843,897	274,035	348,824,655
Financial liabilities						
Deposits from financial institutions	21	58,835,098	44,616,399	8,744,261	10	112,195,768
Deposits from customers	22	48,778,967	39,044,002	67,626	58,329	87,948,924
Repurchase agreements	23	22,949,907	-	-	-	22,949,907
Borrowed funds	24	20,620,840	-	-	-	20,620,840
Other liabilities	25	4,459,915	2,405,416	337,117	366	7,202,814
		155,644,727	**86,065,817**	**9,149,004**	**58,705**	**250,918,253**
Net position		**110,807,059**	**(12,810,880)**	**(305,107)**	**215,330**	**97,906,402**

34. Risk management, continued

34.4 Market risk, continued

As at 31 December 2019 *(In thousands of MNT)*	**Notes**	**MNT**	**USD**	**Euro**	**Other**	**Total**
Financial assets						
Cash and balances with BOM	14	56,324,410	100,856,994	6,662,045	23,894,816	187,738,265
Due from banks	15	20,514,035	1,677,263	3,367	161,140	22,355,805
Financial assets at fair value	16	351,029	-	-	1,514	352,543
Financial assets at fair value through other comprehensive income	16	25,816,251	-	-	-	25,816,251
Loans and advances to customers	17	193,721,097	60,706,451	-	-	254,427,548
Other assets	20	136	-	-	-	136
		296,726,958	163,240,708	6,665,412	24,057,470	490,690,548
Financial liabilities						
Deposits from financial institutions	21	97,342,709	41,828,451	767,682	23,787,428	163,726,270
Deposits from customers	22	110,882,078	131,884,634	6,157,804	75,317	248,999,833
Repurchase agreements	23	3,998,795	-	-	-	3,998,795
Other liabilities	25	25,817,744	122,284	3,217	99,020	26,042,265
		238,041,326	173,835,369	6,928,703	23,961,765	442,767,163
Net position		**58,685,632**	**(10,594,661)**	**(263,291)**	**95,705**	**47,923,385**

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 due to inadequacy or failure of internal processes, human or systemic, or external events. Within the framework of operational risk management, "Three lines of Defense" is implemented and the first line of defense, risk and control management, or the owner is responsible for identifying, evaluating, and managing risk in day-to-day operations; the second line of defense, risk management controlling unit is responsible for set the risk management framework, risk management policies, procedures, standards and methodologies and support Line 1; and the third line of defense and the unit implementing independent assurance is responsible for reviewing and evaluating the effectiveness of Line 1 risk management, Line 2 framework, and operational effectiveness.

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 2020 (31 December 2019: 12%), calculated on the basis of total capital and total assets adjusted for their risk, and as 9% as at 31 December 2020 (31 December 2019: 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 2020 and 31 December 2019 were as follows:

(In thousands of MNT)	**31 Dec 2020**	**31 Dec 2019**
Tier 1 capital	109,039,263	81,652,745
Tier 2 capital	596	596
Total Tier 1 and Tier 2 capital	**109,039,859**	**81,653,341**
Risk weighted assets	274,875,378	300,772,515
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	39.67%	27.15%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	39.67%	27.15%

The breakdown of risk weighted assets into the various categories of risk weights as at 31 December 2020 and 2019 are as follows:

(In thousands of MNT)

	2020		**2019**	
%	**Risk Assets**	**Weighted**	**Risk Assets**	**Weighted**
0	70,582,488	-	236,237,793	-
20	49,706,189	9,941,238	10,555,873	2,111,175
50	1,417,038	708,519	943,100	471,550
80	n/a	n/a	51,698,803	41,359,042
90	40,982,645	36,884,381	n/a	n/a
100	137,726,167	137,726,167	161,293,309	161,293,309
150	59,743,382	89,615,073	63,691,626	95,537,439
Total	**360,157,909**	**274,875,378**	**524,420,504**	**300,772,515**

36. Subsequent events

Changes in shareholders

On 14 January 2021, Mr. Temuujin.M transferred his shareholding to Mr. Radnaabazar.P and related changes in the State Registration Certificate and Bank Charter were registered by the State Registration Office following the approval from the Bank of Mongolia. As a result, the ultimate controlling party changed to Mr. Radnaabazar.P in January 2021.

COVID-19

The COVID-19 pandemic has continued to impact the Mongolian economy since 31 December 2020, with further lockdowns imposed as preventative measures against the spread of COVID-19, see Note 29 Contingent liabilities and commitments for more information.

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.