Transport and Development Bank LLC

Financial Statements

31 December 2021

(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 2021	Radnaabazar P. (60.88%) Minjin G. (8.81%) Batgerel B. (6.89%) Gantuya B. (6.45%) Amarjargal B. (4.80%) Ganbold U. (4.78%) Oyungerel D. (4.60%) Infrastructure LLC (2.79%)
Board of Directors	Davaa P. Bazarmaa R. Enerelt B. Munkhzaya Z. Oyuntsatsral B.
Chief Executive Officer	Erdenebayar B.
Chief Financial Officer	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 2021 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 2021 were authorized for issuance by the Bank's management.

Erdenebayar Batchuluun Chief Executive Officer	Bolor Tserendorj Chief Financial Officer

Ulaanbaatar,
Mongolia

Date: 28 March 2022

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

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

Independent Auditors' Report

To: The Shareholders of Transport and Development Bank LLC

Opinion

We have audited the accompanying financial statements of Transport and Development Bank LLC ("the Bank"), which comprise the statement of financial position as at 31 December 2021, 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 2021, 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.

Emphasis of Matter

We draw attention to Note 5 of the financial statements, the Bank acquired 100% of the outstanding common shares and voting interest of Credit Bank at 21 August 2021.

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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.

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
28 March 2022

Signed by:	Approved by:
Soyolmaa Gungaanyambuu *General Director*	Cho Sang Yong *Partner*

КЭЙ ПИ ЭМ ЖИ АУДИТ ХХК
KPMG AUDIT LLC

This report is effective as at 28 March 2022, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholders of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

(In thousands of MNT)	**Notes**	**2021**	**2020**
Interest income calculated using the effective interest method	*6*	50,814,740	44,854,170
Interest and similar expense	*6*	(24,881,973)	(25,089,645)
Net interest income		**25,932,767**	**19,764,525**
Fee and commission income	*7*	376,799	330,979
Fee and commission expense	*7*	(462,092)	(436,979)
Net fee and commission expense		**(85,293)**	**(106,000)**
Net trading income	*8*	1,457,159	2,493,878
Net income / (expense) from other financial instruments at FVTPL	*9*	(27,514)	50,270
Revenue		**27,277,119**	**22,202,673**
Other income	*10a*	54,652	683,476
Impairment losses on financial instruments	*13*	(691,740)	(8,133,610)
Personnel expenses	*11*	(5,443,150)	(3,734,624)
Depreciation and amortization	*20, 21*	(4,010,633)	(2,644,442)
Other expenses	*10b*	(3,071,270)	(2,083,588)
Non-operating expenses	*12*	(221,457)	(150,337)
Profit before tax		**13,893,521**	**6,139,548**
Income tax expense	*14*	(2,440,975)	(665,418)
Net profit for the year		**11,452,546**	**5,474,130**
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		109,751	18,128
- Reclassified to profit or loss		(18,128)	(105,740)
Total comprehensive income for the year		**11,544,169**	**5,386,518**

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

(In thousands of MNT)	**Notes**	**31 Dec 2021**	**31 Dec 2020**
Assets			
Cash and balances with BoM	*15, 29*	122,747,594	47,652,174
Due from other banks	*16*	37,585,022	60,889,978
Financial assets at FVTPL	*17*	13,217	266,720
Financial assets at FVOCI	*17*	80,520,228	22,930,314
Financial assets at amortised cost	*17*	2,427,215	-
Derivative financial assets	*18*	35,712	-
Loans and advances to customers	*19*	423,569,662	216,738,625
Property and equipment	*20*	11,045,889	8,930,940
Intangible assets	*21*	5,432,936	458,040
Deferred tax assets	*14*	355,657	-
Other assets	*22*	34,728,868	2,291,118
Goodwill	*5*	4,591,561	-
Total assets		**723,053,561**	**360,157,909**
Equity and Liabilities			
Liabilities			
Deposits from financial institutions	*23*	90,063,973	112,195,768
Deposits from customers	*24*	318,303,255	87,948,924
Repurchase agreements	*25*	76,731,558	22,949,907
Borrowed funds	*26*	47,066,560	20,620,840
Derivative financial liabilities	*18*	20,009	-
Current tax liabilities	*14*	894,892	189,441
Deferred tax liabilities	*14*	-	10,356
Other liabilities	*27*	7,270,068	7,202,814
Total liabilities		**540,350,315**	**251,118,050**
Equity			
Share capital	*28*	146,473,811	100,000,000
Share premium	*28*	15,645,407	-
Reserves		138,269	46,646
Retained earnings		20,445,759	8,993,213
Total equity		**182,703,246**	**109,039,859**
Total equity and liabilities		**723,053,561**	**360,157,909**

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

(In thousands of MNT)	Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2020	78,000,000	-	105,740	28,518	3,519,083	81,653,341
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)
Total comprehensive income	-		(87,612)	-	5,474,130	5,386,518
Contributions 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**
Net profit for the year	-	-	-	-	11,452,546	11,452,546
Other comprehensive income:						
FVOCI debt investments:						
– Net change in fair value	-	-	109,751	-	-	109,751
– Reclassified to profit or loss	-	-	(18,128)	-	-	(18,128)
Total comprehensive income	-	-	91,623	-	11,452,546	11,544,169
Issuance of additional shares in relation to Merger (Note 5, 28)	46,473,811	15,645,407	-	-	-	62,119,218
Balance at 31 December 2021	**146,473,811**	**15,645,407**	**109,751**	**28,518**	**20,445,759**	**182,703,246**

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

(In thousands of MNT)	***Notes***	**2021**	**2020**
Cash flows from operating activities			
Profit for the year		11,452,546	5,474,130
Adjustment for:			
Depreciation of property and equipment	*20*	3,693,606	2,221,486
Amortisation of intangible assets	*21*	317,027	422,956
Disposal of property and equipment, excluding right-of-use assets	*10, 20*	107,371	118,478
Impact of lease cancellation	*10*	-	(26,501)
Net interest income	*6*	(25,932,767)	(19,764,525)
Impairment losses, net	*13*	691,740	8,133,610
Income tax expense	*14*	2,440,975	665,418
Dividend income		-	(16,883)
Changes in assets and liabilities:			
Reserves with BoM	*29*	(21,623,548)	26,778,774
Placement with foreign bank as cash collateral	*29*	(4,381,454)	-
Derivative financial assets		(566,110)	-
Loans and advances to customers	*19*	(83,326,243)	29,346,784
Other assets	*22*	242,999	19,178,353
Due to banks and other financial institutions	*23*	(62,866,330)	(50,783,606)
Due to customers	*24*	179,910,628	(161,341,385)
Repurchase agreements	*25*	41,620,904	18,885,343
Derivative financial liabilities		557,278	-
Other liabilities	*27*	1,936,211	(18,592,243)
Interest received		45,595,920	45,163,012
Interest paid		(19,646,134)	(24,336,967)
Interest on lease liabilities paid	*35*	(694,188)	(659,590)
Income taxes paid		(2,572,347)	(313,632)
Net cash (used in)/ provided by operating activities		**66,958,084**	**(119,446,988)**

(In thousands of MNT)	***Notes***	**2021**	**2020**
Cash flows from investing activities			
Cash addition as a result of the Merger	*5*	10,194,984	-
Acquisition of property and equipment	*20*	(5,838,653)	(3,812,516)
Proceeds from disposal of property, plant and equipment	*20*	655,545	-
Acquisition of intangible assets	*21*	(186,613)	(133,225)
Acquisition of financial assets at FVOCI	*17*	(590,974,716)	(268,020,645)
Proceeds from redemption of financial assets at FVOCI	*17*	533,496,720	270,906,582
Acquisition of financial assets at amortised cost	*17*	(2,262,700)	-
Proceeds from disposal of financial assets at fair value		240,867	85,823
Dividends received from financial investments		-	16,883
Net cash used in investing activities		**(54,674,566)**	**(957,098)**
Cash flows from financing activities			
Borrowed funds received	*26*	27,063,352	20,137,100
Repayment of borrowed funds	*26*	(10,576,535)	-
Proceeds from issuance of shares	*28*	-	22,000,000
Payment of lease liabilities	*35*	(2,301,058)	(1,268,257)
Net cash provided by financing activities		**14,185,759**	**40,868,843**
Net change in cash and cash equivalents		**26,469,277**	**(79,535,243)**
Cash and cash equivalents at 1 January	*29*	100,752,254	175,525,398
Effect of foreign exchange rate fluctuation on cash held		(683,815)	4,762,099
Cash and cash equivalents at 31 December	*29*	**126,537,716**	**100,752,254**

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

1. Reporting entity

Transport and Development Bank LLC ("the Bank or Transbank") 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 BoM.

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 BoM on 9 December 2013. In addition, more banking activities were restricted by Decree No. A/271 of the Governor of the BoM 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 BoM 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 BoM on 5 March 2018.

On 21 August 2021, it was announced that the Bank and Credit bank LLC ("CB"), were officially merged under BoM resolution dated 27 July 2021 under the Banking law and Company law. The merger was governed by a Merger Agreement between the Bank and CB of which all assets, liabilities, reserves and branches of CB were to be merged into the Bank, taking effect from 21 August 2021 (See Note 5).

As at 31 December 2021, the Bank is owned by seven individuals and one company. The ultimate controlling party as at 31 December 2021 was an individual, Mr. Radnaabazar P.

2. Basis of preparation

(a) Statement of compliance

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

The financial statements of the Bank for the year ended 31 December 2021 were authorised for issue by the Directors on 28 March 2022.

(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 36 (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 2021.

The following amended standards became effective in 2021, but did not have a material impact on the Bank:

- Covid-19-Related rent concessions – Amendment to IFRS 16; and
- Interest rate benchmark reform (Phase 2) - Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16.

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);
- 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;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

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 recognised 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 recognised 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 derecognised) 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.

(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.

4. Significant accounting policies, continued

(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 recognised in OCI, except for the following, which are recognised 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 derecognised, the cumulative gain or loss previously recognised 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 recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised 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.

Subsequent costs

Subsequent costs are recognised 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 derecognised. The costs of the day-to-day servicing are recognised in profit or loss as incurred.

4. Significant accounting policies, continued

(e) Property and equipment, continued

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 recognised 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 2 to 3 years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Due to Merger, the one new intangible asset is identified which is the current contracts and the related customer relationship. In accordance with IFRS 3 Business combinations and IAS 38 Intangible assets, the Bank recognised a new identified intangible asset at its fair value at the date of acquisition.

(i) Impairment of non-financial assets

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

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

4. Significant accounting policies, continued

(i) Impairment of non-financial assets, continued

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.

(j) Equity capital

(i) Share capital

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

(ii) Share premium

The amount of contribution in excess of par value is accounted for as "Share premium". Share premium also arises from additional capital contribution from stockholders.

(k) 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 recognised as an expense in the comprehensive income statement as incurred.

(l) 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.

4. Significant accounting policies, continued

(i) Interest, continued

Effective interest rate

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.

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.

4. Significant accounting policies, continued

(i) Interest, continued

Presentation, continued

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 recognised 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 recognised 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.

(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.

4. Significant accounting policies, continued

(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.

4. Significant accounting policies, continued

(o) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised 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.

(ii) Deferred tax

Deferred tax is recognised, 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 recognised for all taxable temporary differences. A deferred tax asset is recognised 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 recognised 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 recognised when liabilities relating to the dividend payments are recognised.

4. Significant accounting policies, continued

(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.

(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.

4. Significant accounting policies, continued

(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. Merger with Credit bank LLC

On 21 August 2021 the Bank acquired 100% of the outstanding common shares and voting interest of Credit Bank ("CB").
The merger transaction involved share for share swap, where outstanding common shares of CB were swapped into equal value of the Bank's 46,473,810 new shares issued, swapped at par of MNT 1,000 each, ensuing in all assets, liabilities, reserves and branches of CB being merged into the Bank. The financial results of CB's operations have been included in the consolidated financial statements from the acquisition date.

(a) Fair value of consideration:

	Nominal value MNT'000	Fair value MNT'000
Common stock (46,473,810 shares)	46,473,811	62,119,218

The fair value of the 46,473,810 shares issued was determined based on the valuation performed by an independent third party valuator.

The valuation techniques used for measuring the fair value of consideration were as follows.

- The Valuator has applied income and market approaches to evaluate the market value of 100% shares of the Bank as at 20 August 2021.
- The market value of the Bank's shares under the market approach reflects valuation multiples based on comparable companies or the price at which comparable businesses are purchased under similar circumstances.
- The application of market approach did not produce a result because of insufficient reliable data.
- The market value of 100% shares of the Bank is equal to MNT 195.8 billion as at 20 August 2021. Market value per share as at 20 August 2021 is estimated to be MNT 1,336.65.
- The market value of the consideration transferred is estimated to be MNT 62,119,218 thousand as at 20 August 2021.

(b) Acquisition related costs:

Legal fees, due diligence costs and other expenses related to the business combination have been included in 'other operational expenses'.

5. Merger with Credit bank LLC, continued

(c) Identifiable assets acquired and liabilities assumed:

Identifiable assets acquired and liabilities assumed of CB as at the date of the Merger are as follows:

(In thousands of MNT)	Notes	Carrying amount	Adjustments	Fair value
ASSETS				
Cash and Balances with BoM		679,817	-	679,817
Due from other banks	(i)	26,610,812	(17,095,645)	9,515,167
Loans and advances to customers		118,883,306	-	118,883,306
Property and equipment	(ii)	744,822	(12,004)	732,818
Intangible assets	(iii)	539,755	4,565,555	5,105,310
Other assets	(ii)	32,583,760	(48,433)	32,535,327
TOTAL ASSETS		**180,042,272**	**(12,590,527)**	**167,451,745**
LIABILITIES				
Due to banks and other financial institutions	(i)	57,460,176	(17,095,645)	40,364,531
Due to customers		48,515,815	-	48,515,815
Repurchase agreements		10,318,027	-	10,318,027
Borrowed funds		10,180,637	-	10,180,637
Current tax liabilities		441,225	-	441,225
Other liabilities		103,853	-	103,853
TOTAL LIABILITIES		**127,019,733**	**(17,095,645)**	**109,924,088**
NET ASSET		**53,022,539**	**4,505,118**	**57,527,657**

Adjustments notes:

(i) Assets and liabilities were reduced by the net amount of deposits placed between the Bank and CB.

(ii) The Bank assessed the physical condition of the property, equipment and commodities acquired and written off assets that could no longer be used.

(iii) CB's core banking system was the same as the Bank, and the duplicate systems were written off on the acquisition date. The net carrying amount of assets written off as at 20 August 2021 is equal to MNT 499.0 million.

Based on the independent valuator's analysis, one new intangible asset was identified which is the current contracts and the related customer relationship. The fair value of the intangible asset as at 20 August 2021 is equal to MNT 5,065 million.

(d) Measurement of fair values:

The fair value measurement of intangible assets were performed by an independent third party valuator. Before that, the Bank assessed the provisional value of the assets internally.

5. Merger with Credit bank LLC, continued

(d) Measurement of fair values, continued:

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuator	Valuation result
Commodities	Internal	The Bank has reviewed the physical condition of all items and written off any unusable items (c.ii)
Property, plant and equipment	Internal	The Bank has reviewed the physical condition of all items and written off any unusable items (c.ii)
Intangible assets	Internal	The Bank has reviewed the usage of all softwares and written off any unusable items (c.iii)
	External	The Valuator has identified only one new intangible asset (c.iii)

(e) Goodwill:

Goodwill arising from the acquisition of Credit Bank LLC has been recognised as follows.

(In thousands of MNT)	Note	Amount
Consideration at fair value	(a)	62,119,218
Fair value of identifiable net assets	(c)	57,527,657
Goodwill		**4,591,561**

Goodwill recognised is not expected to be deductible for tax purposes.

6. Net interest income calculated using the effective interest method

(In thousands of MNT)	2021	2020
Loans and advances to customers	44,495,180	37,967,825
Financial assets at fair value through other comprehensive income	4,283,637	1,739,037
Cash and balances with other banks	859,902	3,248,364
Long term swaps	665,853	-
Financial assets at amortised cost	209,819	-
Balance with BoM	132,299	1,898,944
Advances to purchase precious metals	168,050	-
	50,814,740	**44,854,170**

Interest and similar expense

(In thousands of MNT)	2021	2020
Due to customers	14,540,727	11,734,020
Due to banks and other financial institutions	5,509,409	10,251,007
Borrowed funds	1,961,555	485,551
Repurchase agreements	1,574,259	386,062
Interest expense on lease liabilities	694,188	659,590
Long term swaps	601,835	-
Other liabilities	-	1,573,415
	24,881,973	**25,089,645**

6. Interest income calculated using the effective interest method, continued

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)	2021	2020
Financial assets measured at amortised cost	463,581,899	277,628,603
Financial assets measured at FVOCI	160,351,913	22,934,298
Total interest-bearing financial assets	**623,933,812**	**300,562,901**
Financial liabilities measured at amortised cost	**532,165,346**	**243,715,439**

7. Net fee and commission expense

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

(In thousands of MNT)	2021	2020
Fee and commission income		
Trade finance service fees	221,349	67,811
Transaction fees	57,356	24,547
Card service fees	43,847	12,247
Account service fees	31,805	32,313
Loan related service fees	3,422	1,144
Commission fees	-	186,125
Other fees	19,020	6,792
	376,799	**330,979**

(In thousands of MNT)	2021	2020
Fee and commission expense		
Card service fees	(155,953)	(121,694)
Bank service fees	(72,606)	(206,906)
Other fees	(233,533)	(108,379)
	(462,092)	**(436,979)**
Net fees and commission expense	**(85,293)**	**(106,000)**

8. Net trading income

(In thousands of MNT)	2021	2020
Precious metals trading gains	2,842,182	4,268,237
Precious metals trading losses	(1,794,708)	(2,082,795)
Foreign exchange trading gains	512,596	792,737
Foreign exchange trading losses	(140,615)	(498,099)
Gains on disposal of securities	38,303	19,462
Losses on disposal of securities	(599)	(5,664)
	1,457,159	**2,493,878**

9. Net income / (expense) from other financial instruments at FVTPL

(In thousands of MNT)	2021	2020
Net income from financial instruments mandatorily measured at FVTPL other than those included in "net trading income"		
Investment securities:		
- Equities	(37,475)	(4,824)
Derivatives held for risk management:		
- Foreign exchange	8,832	55,094
- Precious metal	1,129	-
	(27,514)	**50,270**

10. Other income and expenses

10.a Other income is as follows:

(In thousands of MNT)	2021	2020
Promotion income from BoM	41,094	347,974
Foreign exchange non-trading gains, net	-	242,132
Repayment of loans previously written-off	-	45,142
Impact of lease cancellation	-	26,501
Other	13,558	21,727
	54,652	**683,476**

10.b Other expenses are as follows:

(In thousands of MNT)	2021	2020
Short-term and low value lease expenses	549,127	130,488
Professional service fees	547,132	491,137
Advertising and marketing	501,804	138,940
Repairs and maintenance	468,363	264,826
Insurance	231,921	573,314
Security	213,481	119,842
Loss on disposal of property and equipment, net	107,371	118,478
Stationary	103,561	43,719
IT and communication	81,984	57,144
Labour safety	57,781	35,715
Foreign exchange non-trading losses, net	52,086	-
Utilities	32,642	34,533
Transportation	30,965	23,171
Others	93,052	52,281
	3,071,270	**2,083,588**

11. Personnel expenses

(In thousands of MNT)	2021	2020
Salaries	4,860,686	3,250,690
Contributions to social and health insurance	540,547	193,494
Business trips	17,927	221,342
Employee trainings	11,350	23,690
Other expenses	12,640	45,408
	5,443,150	**3,734,624**

12. Non-operating expenses

(In thousands of MNT)	2021	2020
Penalties	170,006	2,000
Hospitality	16,437	28,756
Donation	4,483	-
Others	30,531	119,581
	221,457	**150,337**

13. Impairment losses or reversals on financial instruments

(In thousands of MNT)	2021	2020
Cash and balances with BoM	(334,246)	(68,351)
Loans and advances to customers (Note 19)	(246,839)	(7,957,012)
Financial investments at amortised cost	(24,763)	-
Other assets	(1,330)	(663)
Cash and balances with other banks (Note 16)	7,061	(5,856)
Loan commitments and financial guarantee contracts	-	(189,340)
New financial assets at FVOCI originated or purchased	(179,235)	(18,128)
Financial assets at FVOCI that have been derecognised*	87,612	105,740
	(691,740)	**(8,133,610)**

*In 2021, the Bank reclassified the cumulative gain previously recognised in other comprehensive income on BoM treasury bills amounting to MNT 18,128 thousand (2020: MNT 105,740 thousand) to profit or loss as the related BoM treasury bills were derecognised.

14. Income tax expense

(1) Income tax expense consists of the following:

(In thousands of MNT)	2021	2020
Income tax expense		
Current tax expense	2,806,988	654,027
Deferred tax expense (benefit)	(366,013)	11,391
	2,440,975	**665,418**

14. Income tax expense, continued

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

(In thousands of MNT)	2021	2020
Profit before tax	13,893,521	6,139,548
Tax at statutory rate*	2,573,380	634,887
Effect of non-deductible expenses	89,470	406,916
Effect of income not subject to income tax	(222,328)	(378,102)
Effect of income tax subject to special tax rate	453	1,717
	2,440,975	**665,418**

(*) According to Mongolian Tax Laws, 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 effective from 2020.

(3) Changes in deferred tax assets (liabilities) for the year ended 31 December 2021 are as follows:

(In thousands of MNT)	Beginning balance	Profit or loss	Ending balance
Property and equipment	12,441	124,730	137,171
Intangible assets	4,180	3,690	7,870
Unrealised foreign exchange gains	(26,977)	69,749	42,772
Other	-	167,844	167,844
	(10,356)	**366,013**	**355,657**

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)**

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

(In thousands of MNT)	2021	2020
Deferred tax assets	355,657	-
Deferred tax liabilities	-	10,356
Current tax assets	-	-
Current tax liabilities	894,892	189,441

14. Income tax expense, continued

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

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

15. Cash and balances with BoM

(In thousands of MNT)	**31 Dec 2021**	**31 Dec 2020**
Cash on hand	4,898,892	1,868,191
Current account with BoM (MNT) *	17,730,093	37,027,976
Current account with BoM (Foreign currency) *	20,286,924	8,752,023
Securities (up to 3 months)	79,831,685	3,984
	122,747,594	**47,652,174**

(*) 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% (2020: 6%), foreign currency 18% (2020: 15%) of customer deposits for a period of 2 weeks. As at 31 December 2021, the average reserve required by BoM for this period of 2 weeks was MNT 14,561,723 thousand (31 December 2020: MNT 3,110,234 thousand) for local currency and MNT 14,851,723 thousand (31 December 2020: MNT 4,679,664 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 2021**	**31 Dec 2020**
Current account with BoM (MNT)	217,429	83,506
Current account with BoM (Foreign currency)	248,784	48,461
	466,213	**131,967**

16. Due from other banks

(In thousands of MNT)	**31 Dec 2021**	**31 Dec 2020**
Current accounts at banks	7,178,335	1,502,469
Deposits at banks	30,406,687	59,387,509
	37,585,022	**60,889,978**

16. Cash and balances with other banks, continued

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

(In thousands of MNT)	31 Dec 2021	31 Dec 2020
Amortized cost:		
Current accounts at banks	808	1,043
Deposits at banks	38,930	45,756
	39,738	**46,799**

17. Investment Securities

(In thousands of MNT)	31 Dec 2021	31 Dec 2020
Financial assets FVTPL:		
Equity investments	13,217	266,720
Financial assets FVOCI:		
BoM treasury bills	69,765,710	22,930,314
Asset backed securities	10,754,518	-
	80,520,228	**22,930,314**
Financial assets at amortised cost:		
Bonds	1,170,883	-
Asset backed securities	1,256,332	-
	2,427,215	**-**
	82,960,660	**23,197,034**

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

Asset backed securities:

In 2021, the Bank participated in securitization transactions with the Mongolian Mortgage Corporation HFC LLC (MIK HFC) and the Securities Financing Corporation LLC (SFC).

Bank mortgages were sold to special purpose companies 'MIK asset 26 SPC' and 'MIK asset 28 SPC', owned by MIK HFC, in exchange to Senior residential mortgage-backed securities (RMBS) and Junior RMBS notes.

The asset securitization transaction with SFC involved the Bank transferring its business loans to the special purpose vehicle 'SFC asset 1 SPC', and receiving loan backed securities (ABS) consisting of Senior and Junior ABS notes in return.

Both asset securitization transactions are under non-recourse condition.
The Bank has classified the Senior notes as 'Financial assets at fair value through other comprehensive income', whilst the Junior notes are under the 'Financial assets at amortised cost'.

Bond:

In January 2021, the Bank invested MNT 1 billion in Mongolian Mutual Finance Group LLC OTC bond of one-year with annual coupon of 19%. The Bond was repaid at maturity.

18. Derivative financial assets, liabilities

	31 Dec 2021		
(In thousands of MNT)	Assets	Liabilities	Notional amount
Derivatives held for trading			
Currency swaps	35,712	19,725	26,600,292
Forwards	-	284	4,713,368
	35,712	**20,009**	**31,313,660**

In 2021, the Bank launched a deposit product to protect against foreign exchange risk. At the end of the MNT deposit period, the customer will receive foreign currency at the agreed exchange rate.

The Bank recognizes the forward exchange contract and presents it on financial statements.

19. Loans and advances to customers

(In thousands of MNT)	31 Dec 2021	31 Dec 2020
Working capital loans	246,718,424	136,909,401
Investment loans	147,440,242	73,656,466
Gold mining	22,843,615	19,500,000
Loans pledged by deposits	9,457,490	102,066
Project loans	6,700,000	-
Mortgages	2,874,628	1,310,525
Consumer loans	857,417	513,023
	436,891,816	**231,991,481**
Accrued interest receivables	6,218,796	1,269,219
Gross loans and advances to customers	**443,110,612**	**233,260,700**
Less: Allowances for loans and advances to customers	(19,414,750)	(16,473,742)
Less: Deferred loan origination fees	(126,200)	(48,333)
Net loans and advances to customers	**423,569,662**	**216,738,625**

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

(In thousands of MNT)	2021	2020
Beginning balance	16,473,742	8,242,390
Charge for the year (Note 13)	246,839	7,957,012
Transferred from Credit bank due to the merger	2,697,040	-
Effect of foreign currency movements	(2,871)	274,340
Ending balance	**19,414,750**	**16,473,742**

Refer to Note 36.2 for credit risk.

20. Property and equipment

Changes in property and equipment are as follows:

(In thousands of MNT)	Right-of-use assets (Note 35)	Leasehold improvements	Office furniture	Computer equipment	Vehicles	Total
At 31 December 2021						
Cost:						
At 31 December 2020	5,777,688	1,431,849	1,343,021	671,864	3,663,123	12,887,545
Additions	3,470,125	510,628	327,047	427,853	1,103,000	5,838,653
Transfer from Credit bank	250,374	-	412,502	631,124	281,540	1,575,540
Write-offs	-	-	(10,354)	(8,193)	-	(18,547)
Disposal	-	-	(4,847)	-	(835,072)	(839,919)
At 31 December 2021	**9,498,187**	**1,942,477**	**2,067,369**	**1,722,648**	**4,212,591**	**19,443,272**
Accumulated depreciation:						
At 1 January 2021	2,429,557	349,435	341,671	498,506	337,436	3,956,605
Charge for the year	2,394,595	499,662	141,505	254,014	403,830	3,693,606
Transfer from Credit bank	172,672	-	122,021	500,356	47,673	842,722
Write-offs	-	-	(6,621)	(8,193)	-	(14,814)
Disposal	-	-	(1,258)	-	(79,478)	(80,736)
At 31 December 2021	**4,996,824**	**849,097**	**597,318**	**1,244,683**	**709,461**	**8,397,383**
Net carrying amount						
31 December 2021	**4,501,363**	**1,093,380**	**1,470,051**	**477,965**	**3,503,130**	**11,045,889**

20. Property and equipment, continued

Changes in property and equipment are as follows:

(In thousands of MNT)	Right-of-use assets (Note 35)	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-off	(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-off	(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**

21. Intangible assets

Changes in intangible assets are as follows:

(In thousands of MNT)		2021	2020
Cost:			
Beginning balance		1,655,268	1,542,543
Additions		186,613	133,225
Transfer from Credit bank	5	140,628	-
Identified as a result of the merger	5	5,064,600	-
Write-offs		-	(20,500)
Ending balance		**7,047,109**	**1,655,268**
Accumulated amortization:			
Beginning balance		1,197,228	794,772
Transfer from Credit bank	5	99,918	-
Amortization charge		317,027	422,956
Write-offs		-	(20,500)
Ending balance		**1,614,173**	**1,197,228**
Carrying amount:		**5,432,936**	**458,040**

22. Other assets

(In thousands of MNT)	31 Dec 2021	31 Dec 2020
Precious metals*	18,862,652	-
Prepayments and advances	15,600,214	1,786,399
Supplies and materials	223,602	157,875
Others	42,400	346,844
	34,728,868	**2,291,118**

* The Bank buys gold and silver and resells them in the same condition in a short period to the BoM 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.

23. Deposits from financial institutions

(In thousands of MNT)	31 Dec 2021	31 Dec 2020
Current accounts from banks and financial institutions	1,258,607	130,390
Deposit accounts from banks and financial institutions	88,805,366	112,065,378
	90,063,973	**112,195,768**

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

24. Deposits from customers

(In thousands of MNT)	31 Dec 2021	31 Dec 2020
Deposits from government sector:		
Current accounts	1,267,343	358
Demand deposits	-	627,672
Time deposits	42,198,626	30,042,669
Deposits from private sector:		
Current accounts	52,592,218	9,455,818
Demand deposits	-	5,230,357
Time deposits	17,021,003	6,385,541
Deposits from individuals:		
Current accounts	5,240,046	419,635
Demand deposits	862,099	1,094,624
Time deposits	199,121,920	34,692,250
	318,303,255	**87,948,924**

25. Repurchase agreements

Contract party	Interest rate	31 Dec 2021 MNT'000
Bank of Mongolia	6.50%	30,558,199
Bank of Mongolia	6.00%	5,187,957
Domestic banks	6.50%	40,985,402
		76,731,558

Contract party	Interest rate	31 Dec 2020 MNT'000
Bank of Mongolia	6.50%	10,056,265
Domestic banks	6.00%	12,893,642
		22,949,907

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.

26. Borrowed funds

(In thousands of MNT)	31 Dec 2021	31 Dec 2020
Borrowed funds from foreign banks and financial institutions:		
International bank for Economic Cooperation	12,809,228	-
Atlantic Forfaitierungs AG	2,640,187	-
China Trade Solutions	1,164,128	-
Borrowed funds from government organizations:		
"Gold-2" national program financing by BoM	19,327,589	19,983,740
Petroleum reserving program financing by BoM	9,303,058	-
Mortgage funding program by BoM and the Ministry of Finance	1,822,370	637,100
	47,066,560	**20,620,840**

In 2021, the Bank received new funds from foreign banks and financial institutions.

International bank of Economic Cooperation

In July 2021, the Bank entered into a Master Financing Agreement with International bank for Economic Co-operation. Under the agreement a loan of USD 3.3 million was lent for one year period, as support for clients trade businesses. In addition the Bank received EUR 1 million interbank money market loan maturing in August 2022.

Atlantic Forfaitierungs AG

In May 2021, the Bank entered into a Facility Agreement with Atlantic Forfaitierungs AG and obtained USD 500,000 and later, in December 2021, additionally obtained USD 551,000. The purpose of the funds were to support customer's import trade. Both loans have 2 years term and shall mature in April 2023 and in December 2023 respectively.

China Trade Solutions

In May 2021, the Bank entered into a Facility Agreement with China Trade Solutions LTD and obtained initial fund of USD 100,000 and later in the year, obtained an additional USD 300,000 in three tranches. These trade financing loans have bullet repayments and their tenors vary between 360-730 days. The maturity of the latest drawn fund is in November 2023.

Other borrowings are from the BoM to finance mortgages and provide financial support to gold mining and petroleum companies. These borrowings are unsecured.

26. Borrowed funds, continued

Gold 2 national program

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

Petroleum reserving program

On 13 December 2021, the Bank entered into a short-term finance source agreement with the BoM for the purpose of financing petroleum companies under the petroleum reserving program. Under the petroleum reserving program, the Bank received funding from the BoM, with the same interest rate as repurchase agreement, and the Bank issued loans with interest of additional 3%. Maturity dates of the borrowed funds are 12 months from the issuance.

27. Other liabilities

(In thousands of MNT)	**31 Dec 2021**	**31 Dec 2020**
Lease liabilities	4,724,401	3,530,591
Money transfer liabilities	1,091,578	2,595,064
Restoration cost liabilities	462,226	400,579
Delay on clearing settlement	280,702	69,845
Commitments	189,340	189,340
Other tax payables	124,240	143,780
Other payables	397,581	273,615
	7,270,068	**7,202,814**

(In thousands of MNT)	**31 Dec 2021**	**31 Dec 2020**
Non-current	2,173,281	2,376,015
Current	5,096,787	4,826,799
	7,270,068	**7,202,814**

28. Share capital and reserves

	Number of ordinary shares		Share capital		Share premium	
	2021	2020	2021 MNT'000	2020 MNT'000	2021 MNT'000	2020 MNT'000
Beginning balance	100,000,000	78,000,000	100,000,000	78,000,000	-	-
Issued during the year	-	22,000,000	-	22,000,000	-	-
Issued in relation to CB acquisition	46,473,810	-	46,473,811	-	15,645,407	-
Ending balance	**146,473,810**	**100,000,000**	**146,473,811**	**100,000,000**	**15,645,407**	**-**

As a result of the Merger, the Bank has issued 46,473,810 additional shares at par value of MNT 1,000 per share. The Merger and the respective increase in capital were approved by BoM on 29 July 2021. (see Note 5)

29. Cash and cash equivalents

(In thousands of MNT)	Note	31 Dec 2021	31 Dec 2020
Cash and balances with BoM	*15*	42,915,909	47,648,190
Cash and balances with other banks	*16*	37,585,022	60,889,978
BoM treasury bills	*15*	79,831,685	3,984
		160,332,616	**108,542,152**
Less: Minimum reserve with BoM not available to finance the Bank's day to day operations		(29,413,446)	(7,789,898)
Less: Placement with foreign bank as cash collateral		(4,381,454)	-
Total cash and cash equivalents for the statement of cash flows		**126,537,716**	**100,752,254**

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.

30. 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 2021				
Financial assets				
BoM treasury bills	-	79,831,685	-	79,831,685
Equity investments at fair value	-	-	13,217*	13,217
Financial assets at fair value through other comprehensive income	-	80,520,228	-	80,520,228
Financial assets at amortised cost	-	2,427,215	-	2,427,215
Derivative financial assets held for trading - Foreign exchange	-	-	35,712	35,712
	-	**162,779,128**	**48,929**	**162,828,057**
Financial liabilities				
Derivative liabilities held for trading - Foreign exchange	-	-	20,009	20,009
	-	**-**	**20,009**	**20,009**
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				
Derivative liabilities held for risk management - Foreign exchange	-	-	-	-
	-	**-**	**-**	**-**

30. Fair value of financial instruments, continued

Determination of fair value and fair value hierarchy, continued

* 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 were measured by valuation techniques using market observable interest rates and similar market inputs.

Transfers between levels 1, 2 and 3

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

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

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

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

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

31. Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations 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 36.2).

(In thousands of MNT)	**31 Dec 2021**	**31 Dec 2020**
Contingent liabilities		
Standby letter of credit (SBLC)	4,381,454	-
Counter guarantee	4,028,738	-
Performance and tender guarantees	2,991,404	921,229
Commitments		
Undrawn commitments to lend	5,348,036	814,212
	16,749,632	**1,735,441**

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. As part of Bank commitment under the new foreign trade finance facility the first SBLC was issued in May 2021.

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 BoM 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.

31. Contingent liabilities and commitments, continued

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.

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.

31. Contingent liabilities and commitments, continued

Covid-19

For much of 2021, there was a growing sense of cautious optimism that the country might finally have put the worst of the Covid-19 pandemic behind. The Government stimulus 'MNT10 trillion' programme and 'Covid-19' law introduced since 2020 implemented and run through the banking sector have positively influenced on the market sentiment and overall liquidity. The economy grew slightly, at an uneven pace throughout the year, due to regulatory transitional policies that created volatility, but most critically from supply chain disruptions arising from border closures from the pandemic resurgence. Amid these uncertainties, our portfolios remained resilient. The Bank closely monitored credit customers under Covid-19 relief programme or operating in vulnerable industries such as trade and construction. No material adverse impact for any specific customer segments was identified.
By the decision of the Government of Mongolia mortgage repayments are waived and "Covid" law enactment is expected to be extended for until end of 2022.

The Bank's technology infrastructure, network capacity, enterprise capabilities, and remote access systems have remained stable in the months since the onset of Covid-19, providing ongoing support for work from home arrangements and a continued moderate level of online and mobile customer traffic. The Bank continues to evaluate its medium term plans related to pandemic, including the impact of the economic recovery and 'return to the new normal' scenarios.

As new post-pandemic normal sets in, social and economic issues are gaining more importance. The Bank proactively takes part in state initiatives for tackling those issues and continues to respond effectively to the needs of customers.

32. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 36.3 '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 2021			
Financial assets			
Cash and balances with BoM	122,747,594	-	122,747,594
Cash and balances with other banks	37,585,022	-	37,585,022
Financial assets at FVTPL	-	13,217	13,217
Financial assets at FVOCI	70,419,646	10,100,582	80,520,228
Financial assets at amortised cost	1,170,883	1,256,332	2,427,215
Derivative financial assets	9,117	26,595	35,712
Loans and advances to customers	272,694,727	150,874,935	423,569,662
Other assets1	18,905,052	-	18,905,052
	523,532,041	162,271,661	685,803,702
Financial liabilities			
Deposits from financial institutions	(89,793,185)	(270,788)	(90,063,973)
Deposits from customers	(276,265,062)	(42,038,193)	(318,303,255)
Repurchase agreements	(76,731,558)	-	(76,731,558)
Borrowed funds	(45,055,915)	(2,010,645)	(47,066,560)
Derivative financial liabilities	(284)	(19,725)	(20,009)
Other liabilities	(5,096,787)	(2,173,281)	(7,270,068)
	(492,942,791)	(46,512,632)	(539,455,423)
	30,589,250	**115,759,029**	**146,348,279**

32. Maturity analysis of assets and liabilities, continued

(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
Cash and balances with other banks	60,889,978	-	60,889,978
Financial assets at FVTPL	253,369	13,351	266,720
Financial assets at FVOCI	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**

(1) Prepayments and inventory supplies were excluded.

33. 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	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. Other operations such as digital and retail banking did not meet the income and asset thresholds for reportable segments in 2021. For reporting purposes, cost centers are not considered as reportable segments. Information related to each reportable segment is set out below.

33. Operating segments, continued

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

2021: *(In thousands of MNT)*	**Corporate Banking**	**Treasury**	**Investment Banking**	**Private Banking**	**China Cooperation**	**Others**	**Total**
Interest income	44,210,852	6,319,559	-	-	-	284,329	50,814,740
Interest expense	52,140	6,606,962	67,418	128,613	41,721	17,985,119	24,881,973
Net interest income (expense)	**44,158,712**	**(287,403)**	**(67,418)**	**(128,613)**	**(41,721)**	**(17,700,790)**	**25,932,767**
Inter-segment interest revenue (expense)	(25,826,130)	8,898,485	-	-	-	16,927,645	**-**
After inter-segment interest revenue (expense)	**18,332,582**	**8,611,082**	**(67,418)**	**(128,613)**	**(41,721)**	**(773,145)**	**25,932,767**
Net fee and commission income (expense)	180,136	(123,337)	(34,615)	-	-	(107,477)	(85,293)
Net trading income and net income from other financial instruments at FVTPL	-	1,175,022	-	-	-	254,623	1,429,645
Total operating income	**18,512,718**	**9,662,767**	**(102,033)**	**(128,613)**	**(41,721)**	**(625,999)**	**27,277,119**
Other income	-	41,094	-	-	-	13,558	54,652
Operating expenses	(414,011)	(196,626)	(377,962)	(764,661)	(219,219)	(6,541,941)	(8,514,420)
Depreciation and amortization	(247,902)	(64,470)	(267,192)	(500,468)	(138,532)	(2,792,069)	(4,010,633)
Non-operating expense	-	(5,142)	(14,559)		(3,356)	(198,400)	(221,457)
Total operating and non-operating expense	**(661,913)**	**(266,238)**	**(659,713)**	**(1,265,129)**	**(361,107)**	**(9,532,410)**	**(12,746,510)**
Total income before impairment losses	**17,850,805**	**9,437,623**	**(761,746)**	**(1,393,742)**	**(402,828)**	**(10,144,851)**	**14,585,261**
Impairment losses on financial assets	(246,839)	(351,948)	-	-	-	(92,953)	(691,740)
Profit (loss) before tax	**17,603,966**	**9,085,675**	**(761,746)**	**(1,393,742)**	**(402,828)**	**(10,237,804)**	**13,893,521**
Inter-segment income (expense)	(902,331)	(227,798)	(805,550)	(1,864,827)	(610,528)	4,411,034	**-**
After inter-segment income (expense)	**16,701,635**	**8,857,877**	**(1,567,296)**	**(3,258,569)**	**(1,013,356)**	**(5,826,770)**	**13,893,521**
Income tax expense							(2,440,975)
Net profit for the year							**11,452,546**
Segment assets	415,160,719	241,207,847	277,903	1,729,065	374,318	64,303,709	**723,053,561**
Segment liabilities	-	145,743,266	2,432,317	-	-	392,174,732	**540,350,315**
Capital expenditures	76,558	215	17,310	195,608	18,131	1,077,864	**1,385,686**

33. Operating segments, continued

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	-	-	92,456	656,975
Operating expenses	(345,610)	(290,682)	(143,474)	(5,639)	(137,140)	(4,777,189)	(5,699,734)
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)	(205,391)	(242,314)
Total operating and non-operating expense	**(374,599)**	**(331,700)**	**(148,576)**	**(5,812)**	**(139,358)**	**(7,586,445)**	**(8,586,490)**
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**

34. Related party disclosures

(1) As at 31 December 2021, the main related parties to the Bank are as follows:

Name of party	Relationship at 31 December 2021
a. Shareholders	Radnaabazar P. (60.88%) Minjin G. (8.81%) Batgerel B. (6.89%) Gantuya B. (6.45%) Amarjargal B. (4.80%) Ganbold U. (4.78%) Oyungerel D. (4.60%) Infrastructure LLC (2.79%)
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 2021	31 Dec 2020
Loans and advances to customers:			
Loans	Shareholders	572	500
	Companies and individuals related to shareholders	24,484,843	17,356,410
	Management	264,777	500
	Companies and individuals related to management	104,192	-
	Others	2,330,500	222,481
		27,184,884	**17,579,891**
Deposits and current accounts:			
Deposits	Shareholders	1,687	652
	Companies and individuals related to shareholders	100,312	32,322
	Management	506,934	136,238
	Companies and individuals related to management	3,833,027	403,652
	Others	1,530	1,051,434
		4,443,490	**1,624,298**

34. Related party disclosures, continued

(2) Related party balances, continued

(In thousands of MNT)

	Relationship	31 Dec 2021	31 Dec 2020
Deposits and current accounts:			
Current accounts	Shareholders	39,387	65,956
	Companies and individuals related to shareholders	11,936,128	268,991
	Management	42,363	1,608
	Companies and individuals related to management	99,161	-
	Others	1,777	2,450
		12,118,816	**339,005**
Commitments:			
Credit line undrawn	Shareholders	99,428	-
	Companies and individuals related to shareholders	206,597	225,606
	Management	17,293	-
		323,318	**225,606**

(3) Related party transactions

(In thousands of MNT)

	Relationship	2021	2020
Loans and advances to customers:			
Loans issued to	Shareholders	(572)	(500)
	Companies and individuals related to shareholders	(7,667,647)	(37,607,406)
	Management	(508,996)	(74,550)
	Companies and individuals related to management	(264,000)	-
	Others	(18,086)	(276,750)
Loans repaid from	Shareholders	500	-
	Companies and individuals related to shareholders	28,393,556	32,713,033
	Management	238,549	97,197
	Companies and individuals related to management	161,808	-
	Others	3,015,493	101,969
Interest income from loans issued	All related parties	3,832,939	1,476,970
Interest expense	All related parties	209,616	249,040
Impairment losses on Stage 3 loans	Companies and individuals related to shareholders	-	-

34. Related party disclosures, continued

(4) Compensation of key management personnel

(In thousands of MNT)	2021	2020
Short term employee benefits:		
Salaries	627,304	639,333
Bonus and compensation	22,707	13,500
Contribution to social and health fund	62,994	38,692
	713,005	**691,525**

35. 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 20).

(In thousands of MNT)	2021	2020
Balance at 1 January	3,348,131	3,766,514
Additions	3,470,125	1,365,052
Transfer from Credit bank	77,702	-
Depreciation charge for the year	(2,394,595)	(1,649,969)
Write-off	-	(133,466)
Balance at 31 December	**4,501,363**	**3,348,131**

ii. Amounts recognised in profit or loss

(In thousands of MNT)	2021	2020
Interest on lease liabilities	694,188	659,590
Expenses relating to short-term leases	549,127	130,488

iii. Amounts recognised in statement of cash flows

(In thousands of MNT)	2021	2020
Cash outflows for leases	2,995,246	1,927,847

36. Risk management

36.1 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. 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.

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.

36. Risk management, continued

36.1 Introduction, continued

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 BoM'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.

36. Risk management, continued

36.2 Credit risk

Excessive Risk Concentration

The Bank follows prudential ratio limits issued by the BoM 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 credit exposures to mining and construction sector shall not exceed 60% of the total credit exposure.
vi. The share of foreign currency credit exposure shall not exceed 40% of the total credit exposure.
vii. 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.
viii. The share of the total loan provision shall not exceed 70% of the total non-performing loan portfolio.
ix. 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 2021	31 Dec 2020
Cash and balances with BoM (excluding cash on hand)	15	117,848,702	45,783,983
Due from other banks	16	37,585,022	60,889,978
Financial assets at fair value through other comprehensive income	17	80,520,228	22,930,314
Financial assets at amortised cost	17	2,427,215	-
Loans and advances to customers	19	423,569,662	216,738,625
Total on balance sheet		**661,950,829**	**346,342,900**
Guarantees, SBLC	31	11,590,936	1,110,569
Commitments	31	5,348,036	814,212
Total off-balance sheet		**16,938,972**	**1,924,781**
Total credit risk exposure		**678,889,801**	**348,267,681**

36. Risk management, continued

36.2 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 19 in gross amounts).

	31 Dec 2021		31 Dec 2020	
(In thousands of MNT)	**Gross maximum exposure**	**%**	**Gross maximum exposure**	**%**
Trading	93,709,225	21.1%	53,558,805	23.0%
Mining and exploration	156,968,763	35.4%	96,518,403	41.4%
Transportation	81,438,569	18.4%	27,479,362	11.8%
Construction	58,573,786	13.2%	35,687,344	15.3%
Real estate	3,296,255	0.7%	2,945,714	1.3%
Electricity & Power	7,960,729	1.8%	3,691,499	1.6%
Communications	-	0.0%	7,104	0.0%
Other	41,163,285	9.3%	13,372,468	5.7%
	443,110,612	**100.0%**	**233,260,700**	**100.0%**
Impairment allowances	(19,414,750)		(16,473,742)	
Deferred loan origination fees	(126,200)		(48,333)	
	423,569,662		**216,738,625**	

36. Risk management, continued

36.2 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).

	2021			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost				
Grade AA	11,084,899	-	35,548	11,120,447
Grade A	3,475,281	-	29,130	3,504,411
Grade BB	161,717	-	316,417	478,134
Grade B	29,267,146	11,282,946	2,444,367	42,994,459
Grade CC	28,416,600	304,094	1,311,256	30,031,950
Grade C	77,265,906	8,331,438	808,016	86,405,360
Grade DD	90,923,667	32,330,487	5,365,962	128,620,116
Grade D	98,609,341	40,076,356	1,270,038	139,955,735
Loss allowance	(8,312,276)	(4,581,411)	(6,521,063)	(19,414,750)
Deferred loan origination fees	(108,905)	(17,071)	(224)	(126,200)
Carrying amount	**330,783,376**	**87,726,839**	**5,059,447**	**423,569,662**

	2020			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortized cost				
Grade AA	270,812	-	-	270,812
Grade A	52,902	-	-	52,902
Grade BB	19,711,007	4,489,466	-	24,200,473
Grade B	17,982,613	57,352,609	-	75,335,222
Grade CC	22,439,801	70,669,118	-	93,108,919
Grade C	860,576	24,363,068	-	25,223,644
Grade DD	-	-	5,993,379	5,993,379
Grade D	-	-	9,075,349	9,075,349
Loss allowance	(796,855)	(4,320,211)	(11,356,676)	(16,473,742)
Deferred loan origination fees	(23,605)	(22,642)	(2,086)	(48,333)
Carrying amount	**60,497,251**	**152,531,408**	**3,709,966**	**216,738,625**

36. Risk management, continued

36.2 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.

	2021			
(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	38,242,584	7,931,102	-	46,173,686
Overdue 30-89 days	-	5,998,478	29,131	6,027,609
Overdue 90-179 days	101	-	352,009	352,110
Overdue 180-360 days	-	-	19,923	19,923
Overdue more than 360 days	-	-	292,798	292,798
Loss allowance	(992,563)	(264,090)	(215,347)	(1,472,000)
Deferred loan origination fees	(39,697)	(1,861)	(222)	(41,780)
Carrying amount	**37,210,425**	**13,663,629**	**478,292**	**51,352,346**
Loans and advances to corporate customers at amortized cost – gross carrying amount				
Overdue less than 30 days	300,791,222	75,929,299	-	376,720,521
Overdue 30-89 days	170,650	2,466,443	-	2,637,093
Overdue 90-179 days	-	-	3,921,853	3,921,853
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	6,965,019	6,965,019
Loss allowance	(7,319,712)	(4,317,321)	(6,305,717)	(17,942,750)
Deferred loan origination fees	(69,209)	(15,211)	-	(84,420)
Carrying amount	**293,572,951**	**74,063,210**	**4,581,155**	**372,217,316**
Debt investment securities at FVOCI				
Grade B	160,351,913	-	-	160,351,913
Carrying amount	**160,351,913**	-	**-**	**160,351,913**
Loss allowance recognised in OCI	91,623	-	-	91,623

36. Risk management, continued

36.2 Credit risk, continued

Credit quality analysis, continued

	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	754,503	866,046	-	1,620,549
Overdue 30-89 days	-	13,660	-	13,660
Overdue 90-179 days	-	-	308,128	308,128
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	-	-
Loss allowance	(10,269)	(20,250)	(356,681)	(387,200)
Deferred loan origination fees	(5,090)	(8,589)	(1,280)	(14,959)
Carrying amount	**739,144**	**850,867**	**(49,833)**	**1,540,178**
Loans and advances to corporate customers at amortized cost – gross carrying amount				
Overdue less than 30 days	60,563,208	150,749,658	-	211,312,866
Overdue 30-89 days	-	5,244,898	4,006,490	9,251,388
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)	(10,999,995)	(16,086,542)
Deferred loan origination fees	(18,515)	(14,053)	(807)	(33,375)
Carrying amount	**59,758,107**	**151,680,541**	**3,759,799**	**215,198,447**
Debt investment securities at FVOCI				
Grade B	22,934,298	-	-	22,934,298
Carrying amount	**22,934,298**	**-**	**-**	**22,934,298**
Loss allowance recognised in OCI	87,612	-	-	87,612

36. Risk management, continued

36.2 Credit risk, continued

Credit quality analysis, continued

	2021			
(In thousands of MNT)	Stage 1	Stage 2	Stage 3	Total
Loan commitments				
Grade B	5,348,036	-	-	5,348,036
Loss allowance	-	-	-	-
	5,348,036	**-**	**-**	**5,348,036**
Financial guarantee contracts				
Grade B	11,401,596	-	189,340	11,590,936
Loss allowance	-	-	(189,340)	(189,340)
	11,401,596	**-**	**-**	**11,401,596**

	2020			
(In thousands of MNT)	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**

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	2021	2020
BoM treasury bills			
Grade B	15, 17	149,597,395	22,934,298
Asset backed securities			
Grade B	17	10,754,518	-
		160,351,913	**22,934,298**

36. Risk management, continued

36.2 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 2021	31 Dec 2020	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 2021	31 Dec 2020	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.

36. Risk management, continued

36.2 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.

In response to the outbreak of the Covid-19 virus, regulators have taken a series of decisions to extend the loan term classification period, restructure assets within the specified period, maintain the classification, defer loan repayment, and exclude restructured assets. The Bank complied with these guidelines and took them into account when classifying and evaluating loans.

36. 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	4.92%	B3
A	4.92%	B3
BB	4.66%	Caa1
B	9.42%	Caa2
CC	9.42%	Caa2
C	21.20%	Caa3
DD	21.20%	Caa3
F	37.50%	Ca-C

36. Risk management, continued

36.2 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
AA	4.92%
A	4.92%
BB	4.66%
B	4.66%
CC	9.42%
C	9.42%
DD	21.20%
D	21.20%
F	37.50%

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 heightened 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 a financial instrument return 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.

36. Risk management, continued

36.2 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:
    - Significant financial deterioration
    - Having difficulty pay interest or principal payment
    - 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 40.2% (2020: 20%) probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 31% (2020: 0%) and 28.8% (2020: 80%) 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 disruptions and considered updated scenarios to better reflect the impact of the post-pandemic and geopolitical misbalances.

36. Risk management, continued

36.2 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.

36. Risk management, continued

36.2 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

36. Risk management, continued

36.2 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.

	2021			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Balance at 1 January	**796,855**	**4,320,211**	**11,356,676**	**16,473,742**
Transfer to Stage 1	869,990	(869,990)	-	-
Transfer to Stage 2	(32,211)	32,211	-	-
Transfer to Stage 3	(1,299)	(36,023)	37,322	-
Net remeasurement of loss allowance	442,709	286,310	1,480,888	2,209,907
New financial assets originated or purchased	7,253,444	3,491,576	316,119	11,061,139
Reversal of impairment allowance	(1,017,213)	(2,642,884)	(6,669,941)	(10,330,038)
Foreign exchange and other movements	-	-	-	-
Balance at 31 December	**8,312,275**	**4,581,411**	**6,521,064**	**19,414,750**

	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**

36. Risk management, continued

36.2 Credit risk, continued

Amounts arising from ECL, continued

Loss allowance, continued

	2021			
(In thousands of MNT)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at FVOCI				
Balance at 1 January	18,128	-	-	18,128
New financial assets originated or purchased	179,235	-	-	179,235
Financial assets that have been derecognised	(87,612)	-	-	(87,612)
Balance at 31 December	**109,751**	**-**	**-**	**109,751**
Debt investment securities at amortised cost				
Beginning balance	-	-	-	-
New financial assets originated or purchased	24,763	-	-	24,763
Financial assets that have been derecognised	-	-	-	-
Ending balance	**24,763**	**-**	**-**	**24,763**

	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**

(In thousands of MNT)	**2021**	**2020**
	Stage 1	**Stage 1**
Cash and cash equivalents (including cash and balances with other banks)		
Balance at 1 January	178,766	104,559
Net increase in cash and cash equivalents	327,185	74,207
Balance at 31 December	**505,951**	**178,766**

36.3 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 BoM's prudential ratios and calculates monthly liquidity stress tests and reports to the Risk Management Committee.

36. Risk management, continued

36.3 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 2021 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 2021						
	Note	**On demand**	**Up to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total undiscounted financial liabilities**	**Carrying value**
Due to banks and other financial institutions	23	1,695,309	79,799,274	9,789,998	315,270	-	91,599,851	90,063,973
Due to customers	24	60,056,656	120,829,175	103,581,215	49,550,520	3,511	334,021,077	318,303,255
Repurchase agreements	25	-	76,896,454	-	-	-	76,896,454	76,731,558
Borrowed funds	26	-	3,577,149	41,920,253	3,825,591	-	49,322,993	47,066,560
Derivative financial liabilities	18	-	20,009	-	-	-	20,009	20,009
Other liabilities	27	7,270,068	-	-	-	-	7,270,068	7,270,068
Guarantees	31	972,781	8,727,313	401,502	1,300,000	-	11,401,596	11,401,596
Loan commitments	31	328,036	-	5,020,000	-	-	5,348,036	5,348,036
Total		**70,322,850**	**289,849,374**	**160,712,968**	**54,991,381**	**3,511**	**575,880,084**	**556,205,055**

36. Risk management, continued

36.3 Liquidity risk, continued

Analysis of financial liabilities by remaining contractual maturities, continued

(In thousands of MNT)

		31 Dec 2020						
	Note	On demand	Up to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total undiscounted financial liabilities	Carrying value
Due to banks and other financial institutions	23	1,693,248	100,302,350	11,390,970	-	-	113,386,568	112,195,768
Due to customers	24	26,828,464	41,499,799	22,279,167	459,864	-	91,067,294	87,948,924
Repurchase agreements	25	-	23,000,000	-	-	-	23,000,000	22,949,907
Borrowed funds	26	-	-	637,100	22,717,973	-	23,355,073	20,620,840
Other liabilities	27	3,127,866	143,780	1,555,154	2,376,014	-	7,202,814	7,202,814
Guarantees	31	982,939	17,250	110,380	-	-	1,110,569	22,969
Loan commitments	31	814,212	-	-	-	-	814,212	-
Total		**33,446,729**	**164,963,179**	**35,972,771**	**25,553,851**	**-**	**259,936,530**	**250,941,222**

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 BoM'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.

36. Risk management, continued

36.4 Market risk, continued

The table below summarizes the Bank's exposure to foreign exchange risk at 31 December 2021 and 31 December 2020. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

As at 31 December 2021

(In thousands of MNT)	Notes	MNT	USD	Euro	Other	Total
Financial assets						
Cash and balances with BoM	15	100,083,413	10,496,497	8,142,917	4,024,767	122,747,594
Due from other banks	16	15,973,806	20,453,788	715,091	442,337	37,585,022
Financial assets at fair value	17	13,217	-	-	-	13,217
Financial assets at FVOCI	17	80,416,180	-	-	104,048	80,520,228
Financial assets at amortised cost	17	2,427,215	-	-	-	2,427,215
Derivative financial assets	18	35,712	-	-	-	35,712
Loans and advances to customers	19	354,543,206	66,443,586	2,582,870	-	423,569,662
Other assets	22	2,082,749	23,670	10,148	16,788,485	18,905,052
		555,575,498	97,417,541	11,451,026	21,359,637	685,803,702
Financial liabilities						
Due to banks and other financial institutions	23	69,291,305	20,772,063	517	88	90,063,973
Due to customers	24	241,224,257	48,000,508	8,306,430	20,772,060	318,303,255
Repurchase agreements	25	76,731,558	-	-	-	76,731,558
Borrowed funds	26	30,453,017	13,344,464	3,269,079	-	47,066,560
Derivative financial liabilities	18	20,009	-	-	-	20,009
Other liabilities	27	6,149,464	1,112,449	7,778	377	7,270,068
		423,869,610	83,229,484	11,583,804	20,772,525	539,455,423
Net position		**131,705,888**	**14,188,057**	**(132,778)**	**587,112**	**146,348,279**

36. Risk management, continued

36.4 Market risk, continued

As at 31 December 2020 *(In thousands of MNT)*	**Notes**	**MNT**	**USD**	**Euro**	**Other**	**Total**
Financial assets						
Cash and balances with BoM	15	37,836,122	6,405,426	3,242,280	168,346	47,652,174
Due from other banks	16	49,398,784	5,783,888	5,601,617	105,689	60,889,978
Financial assets at fair value	17	266,720	-	-	-	266,720
Financial assets at FVOCI	17	22,930,314	-	-	-	22,930,314
Loans and advances to customers	19	155,678,124	61,060,501	-	-	216,738,625
Other assets	22	341,723	5,121	-	-	346,844
		266,451,787	73,254,936	8,843,897	274,035	348,824,655
Financial liabilities						
Due to banks and other financial institutions	23	58,835,098	44,616,399	8,744,261	10	112,195,768
Due to customers	24	48,778,967	39,044,002	67,626	58,329	87,948,924
Repurchase agreements	25	22,949,907	-	-	-	22,949,907
Borrowed funds	26	20,620,840	-	-	-	20,620,840
Other liabilities	27	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		**110,807,060**	**(12,810,881)**	**(305,107)**	**215,330**	**97,906,402**

36. Risk management, continued

36.4 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 BoM. As part of the program, the BoM 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 BoM in several areas.

In May 2018, the BoM 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 BoM.

37. 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 BoM.

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 2021 (31 December 2020: 12%), calculated on the basis of total capital and total assets adjusted for their risk, and as 9% as at 31 December 2021 (31 December 2020: 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 2021 and 31 December 2020 were as follows:

(In thousands of MNT)	**31 Dec 2021**	**31 Dec 2020**
Tier 1 capital	182,592,899	109,021,135
Tier 2 capital	110,347	18,724
Total Tier 1 and Tier 2 capital	**182,703,246**	**109,039,859**
Risk weighted assets	534,707,444	274,875,378
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	34.17%	39.67%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	34.15%	39.66%

The breakdown of risk weighted assets into the various categories of risk weights as at 31 December 2021 and 2020 are as follows:

(In thousands of MNT)

	2021		**2020**	
%	**Risk Assets**	**Weighted**	**Risk Assets**	**Weighted**
0	205,695,037	-	70,582,488	-
20	20,865,106	4,173,021	49,706,189	9,941,238
50	2,944,004	1,472,002	1,417,038	708,519
90	-	-	40,982,645	36,884,381
100	422,523,401	422,523,401	137,726,167	137,726,167
150	71,026,013	106,539,020	59,743,382	89,615,073
Total	**723,053,561**	**534,707,444**	**360,157,909**	**274,875,378**

38. Subsequent events

Economic growth picked up this year, albeit at below pre-Covid levels, helped by strong policy support, the deployment of nationwide vaccinations and the reversal of lockdown measures.

Chinese border closures and restrictions is adding pressure on supply chains and costs. Supply disruptions are longer than expected caused consumer price inflation to increase rapidly. Against the background of economic recovery and increased inflationary pressures BoM began raising the policy rate. Combined boosting effect on the wellbeing of the country from the implementation of the Government Great reset policy are yet to be seen.

The Bank is also closely monitoring the state of affairs in Ukraine and Russia from a financial, operational and security perspective, undertaking timely preventative actions through the taskforce, formed from the Bank risk, treasury, international trade and settlement functions. Concerned with the impact and threat to global stability and security, the Bank has minimized its exposures in the business areas vulnerable to the situation, by selectively curtailing foreign trade, lending and currency transactions that fall under the announced international sanctions. Total loan portfolio exposure is MNT 17 billion or 3.6 percent from oil and petroleum importing clients. Business operations and loan servicing of the clients continue at ordinary pace.

From start of 2022, BoM tightened its position against building reserves in general, and as has been required, the Bank started adding special reserve for each loan, along with additional contingency reserve of 1 percent on the total loan portfolio.

The Bank continues to be vigilant and resourceful to the rapidly changing circumstances, striking the right balance between the opportunities and business deteriorations that might occur.

The Directors have assessed that at the date of the signing the 31 December 2021 financial statements, there are no direct or indirect impact of the Russia - Ukraine crisis to the Bank's operation that would require additional disclosures.

39. 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.