XACBANK LLC

Financial Statements together with Independent Auditor's Report for the year ended 31 December 2020

CORPORATE INFORMATION

REGISTERED ADDRESS:	XacBank Building Prime Minister Amar's Street, Post Branch # 46, P.O Box 721, Ulaanbaatar 14200 Mongolia
BOARD OF DIRECTORS:	Mr. Sanjay Gupta Mr. Tsevegjav Gumenjav Ms. Tselmuun Nyamtaishir Mr. Andrzej Witak Mr. Michael Madden Mr. Ulambayar Bayansan Mr. Albertus Bruggink (interim) Mr. Niraj Vedwa Mr. Yves Jacquot Mr. Maurice Lam Mr. Melissa Moy Tian
CORPORATE SECRETARY:	Ms. Ashidmaa Dashnyam
AUDITORS	Deloitte Onch Audit LLC

XACBANK LLC

STATEMENT BY EXECUTIVES

We, Tsevegjav Gumenjav being Chief Executive Officer of XacBank LLC ("the Bank") and Erdenebayar Ganzorig being Chief Financial Officer primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 1 to 88 give a true and fair view of the financial position of the Bank as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

TSEVEGJAV GUMENJAV
(Chief Executive Officer)

ERDENEBAYAR GANZORIG
(Chief Financial Officer)

Ulaanbaatar, Mongolia
Date: 31 March 2021

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of XacBank LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of XacBank LLC (the "Bank"), which comprise the statement of financial position as at 31 December 2020, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Bank as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors of the Bank are responsible for the other information. The other information comprises the information included in the statement by executives, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs 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.

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Auditor's 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 auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 scepticism 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 the directors.

- Conclude on the appropriateness of the directors' 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 auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Deloitte Onch Audit LLC

Deloitte Onch Audit LLC
Ulaanbaatar, Mongolia
31 March 2021

DELOITTE ONCH AUDIT LLC

Signed by:
Norjinbat Shagdarsuren
CEO, CPA

GLOSSARY OF ABBREVIATION

AC	Amortized cost
BOM	Bank of Mongolia
ECL	Expected credit loss
EIR	Effective interest rate
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDP	Gross domestic product
IFRS	International Financial Reporting Standards
IFRS 7	IFRS 7 Financial Instruments: Disclosures
IFRS 9	IFRS 9 Financial Instruments
IFRS 13	IFRS 13 Fair Value Measurement
IFRIC	International Financial Reporting Interpretations Committee
LGD	Loss given default
LIBOR	London Interbank Offered Rate
OCI	Other comprehensive income
PD	Probability of default
RMBS	Residential Mortgage Backed Securities
SPPI	Solely payments of principal and interest on the principal amount outstanding
VaR	Value at Risk

XACBANK LLC

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 MNT'000	2019 MNT'000
Interest and similar income	4	366,408,789	353,854,265
Interest and similar expense	4	(257,517,582)	(254,168,127)
Net interest income		**108,891,207**	**99,686,138**
Fees and commission income	5	22,895,400	22,988,042
Fees and commission expenses	5	(6,379,964)	(7,332,510)
Net fees and commission income	5	**16,515,436**	**15,655,532**
Net trading loss	6	(5,270,026)	(8,885,720)
Net income from other financial instruments at FVTPL	7	3,255,082	3,398,875
Net other operating income (expense)	8	1,456,477	(8,474,122)
Total operating income		**124,848,176**	**101,380,703**
Net expense of credit loss	9	(19,021,376)	(18,192,562)
Net operating income		**105,826,800**	**83,188,141**
Operating expenses	10	(68,405,082)	(71,109,019)
Amortisation of deferred grants	23	1,174,729	2,064,769
Profit before tax		**38,596,447**	**14,143,891**
Income tax expense	11	(8,804,473)	(5,492,398)
Profit for the year		**29,791,974**	**8,651,493**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Movement in fair value of financial assets at FVTOCI, net of tax		842,605	-
Movement in investment revaluation reserve, net of tax		169,431	38,619
Other comprehensive income for the year, net of tax		**1,012,036**	**38,619**
Total comprehensive income for the year		**30,804,010**	**8,690,112**
Earnings per share (MNT):			
Basic earnings per share	12	1,463.72	425.06
Diluted earnings per share	12	1,463.72	425.06

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 MNT'000	2019 MNT'000
ASSETS			
Cash and balances with BOM	13.1	179,504,448	571,202,252
Mandatory cash balances with BOM	13.2	186,372,668	213,044,263
Financial instruments at FVTPL			
Derivative financial instruments	14.2	68,968,391	89,876,981
Securities	14.1	42,356,444	34,916,469
Financial assets at FVTOCI			
Equity securities	15	3,609,660	3,383,754
Loans and advances to customers	15	63,181,771	68,782,951
Financial assets at amortised cost			
Due from banks	16.1	76,561,599	122,223,590
Debt securities	16.2	1,207,367,188	467,741,147
Loans and advances to customers	16.3	1,272,781,827	1,725,784,584
Other assets	17	40,132,698	39,324,166
Properties held for sale	18	2,607,895	3,418,378
Property and equipment	19	62,400,674	67,413,003
Intangible assets	20	14,633,933	12,064,578
Investment property	21	21,260,252	31,919,060
Deferred tax asset	11.2	1,951,859	1,879,822
TOTAL ASSETS		**3,243,691,307**	**3,452,974,998**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial instruments at FVTPL			
Derivative financial instruments	14.2	728,578	5,227,460
Financial liabilities at amortised cost			
Repurchase agreements	22.1	-	297,898,939
Due to banks	22.2	1,938,909	12,229,311
Due to customers	22.3	2,025,652,948	1,843,180,057
Borrowed funds	22.4	836,317,522	895,987,384
Subordinated loans	22.5	-	54,415,887
Deferred grants	23	10,318,966	8,047,821
Lease liabilities	24	3,176,591	4,867,446
Other liabilities	25	81,110,723	85,287,401
Income tax payable		7,809,768	-
TOTAL LIABILITIES		**2,967,054,005**	**3,207,141,706**
EQUITY			
Ordinary shares	26	55,342,753	55,342,753
Other reserves	27	10,531,368	10,531,368
Retained profits		164,465,806	145,960,360
Investment revaluation reserve	15	2,063,020	1,893,589
Regulatory reserve	28	27,892,949	16,513,343
Revaluation reserve for premises		15,498,801	15,591,879
Movement in fair value of financial assets at FVTOCI		842,605	-
TOTAL EQUITY		**276,637,302**	**245,833,292**
TOTAL LIABILITIES AND EQUITY		**3,243,691,307**	**3,452,974,998**

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

XACBANK LLC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Ordinary shares MNT'000	Other reserves MNT'000	Investment revaluation reserve MNT'000	Regulatory Reserve MNT'000	Revaluation reserve for premises MNT'000	Movement in fair value of financial assets at FVTOCI MNT'000	Retained profits MNT'000	Total equity MNT'000
At 01 January 2020		**55,342,753**	**10,531,368**	**1,893,589**	**16,513,343**	**15,591,879**	**-**	**145,960,360**	**245,833,292**
Profit for the year		-	-	-	-	-	-	29,791,974	29,791,974
Other comprehensive income		-	-	169,431	-	-	842,605	-	1,012,036
Total comprehensive income		**-**	**-**	**169,431**	**-**	**-**	**842,605**	**29,791,974**	**30,804,010**
Realised revaluation reserve		-	-	-	-	(93,078)	-	93,078	-
Transfer to regulatory reserve		-	-	-	11,379,606	-	-	(11,379,606)	-
At 31 December 2020		**55,342,753**	**10,531,368**	**2,063,020**	**27,892,949**	**15,498,801**	**842,605**	**164,465,806**	**276,637,302**
At 01 January 2019		**55,342,753**	**10,531,368**	**1,854,970**	**21,938,002**	**15,669,841**	**-**	**131,806,246**	**237,143,180**
Profit for the year		-	-	-	-	-	-	8,651,493	8,651,493
Other comprehensive income		-	-	38,619	-	-	-	-	38,619
Total comprehensive income		**-**	**-**	**38,619**	**-**	**-**	**-**	**8,651,493**	**8,690,112**
Realised revaluation reserve		-	-	-	-	(77,962)	-	77,962	-
Transfer to regulatory reserve		-	-	-	(5,424,659)	-	-	5,424,659	-
At 31 December 2019		**55,342,753**	**10,531,368**	**1,893,589**	**16,513,343**	**15,591,879**	**-**	**145,960,360**	**245,833,292**

The regulatory reserve is set up in compliance with Bank of Mongolia requirement and is distributable to Shareholder of the Bank subject to Bank of Mongolia's approval.

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 MNT'000	2019 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		38,596,447	14,143,891
Adjustments for:			
Gain on disposal of property and equipment	8	(41,106)	(60,504)
Loss on disposal of foreclosed properties	8	308,818	1,689,574
Loss on disposal of property held for sale	8	268,824	295,881
(Gain)/loss on disposal of investment property	8	(2,080)	2,300
Loss on disposal of Loans and advances to customers	8	223,798	-
Loss on disposal of financial asset measured at FVTPL	7	-	287,248
Unrealised foreign exchange gain	8	(1,748,592)	(2,220,165)
Net expense of credit loss	9	19,021,376	18,192,562
Fair value changes in financial assets measured at FVTPL	6, 7	616,001	(329,793)
Depreciation of property, and equipment	10	6,636,994	6,807,891
Depreciation of right of use assets	10	3,712,990	4,081,719
Amortisation of intangible assets	10	2,656,154	2,174,365
Property and equipment written off	10	58,443	-
Intangible asset written off	10	46,400	-
(Reversal)/recognition of impairment loss on foreclosed properties	8	(2,447,205)	4,338,160
Fair value loss on investment property	8	3,085,935	5,908,694
Amortisation of deferred grants	23	(1,174,729)	(2,064,769)
Interest income from financial assets measured at amortised cost and other comprehensive income	4	(366,408,789)	(353,854,265)
Interest income from financial assets measured at FVTPL	6, 7	(4,162,458)	(3,396,860)
Interest expense	4	257,517,582	254,168,127
Interest received		280,769,186	335,223,139
Interest paid		(185,587,552)	(160,105,863)
Operating cashflows before operating assets and liabilities		**51,946,437**	**125,281,332**
Changes in operating assets:			
Statutory deposits with BoM		26,671,595	(26,377,730)
Due from banks		-	11,066,956
Loans and advances to customers		397,196,938	75,788,009
Derivative financial instruments		64,303,309	45,371,695
Other assets		919,971	(4,757,672)
Changes in operating liabilities:			
Due to banks		(10,287,521)	(50,458,842)
Repurchase agreements		(297,901,361)	129,508,252
Due to customers		161,730,348	235,603,824
Derivative financial instruments		(4,498,882)	971,946
Other liabilities		(4,942,475)	11,218,446
Cash generated from operations		**385,138,359**	**553,216,216**
Income tax paid		(731,281)	(7,209,211)
Net cash flows generated from operating activities		**384,407,078**	**546,007,005**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONT'D)

	Note	2020 MNT'000	2019 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		95,574,657	23,372,204
Purchase of debt securities at AC		(81,921)	(4,073,180)
Proceeds from financial investments at FVTPL		87,600	1,595,632
Proceeds from disposal of debt securities at AC		5,078,500	2,603,300
Proceeds from disposal of property and equipment		277,353	297,881
Acquisition of property and equipment		(2,431,128)	(2,343,056)
Acquisition of intangible assets	20	(5,271,909)	(1,473,936)
Proceeds from disposal of properties held for sale		2,858,544	5,534,497
Proceeds from disposal of investment properties		96,080	440,000
Proceeds from disposal of foreclosed properties		3,938,684	13,142,515
Net cash flows generated from investing activities		**100,126,460**	**39,095,857**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	22.4.1 22.5.1	(72,498,240)	(86,466,755)
Drawdown of borrowed funds	22.4.1	352,912,573	684,395,192
Repayment of borrowed funds	22.4.1	(417,689,549)	(627,610,158)
Repayment of subordinated loans	22.5.1	(56,985,800)	(54,522,400)
Deferred grants received	23	3,445,874	5,506,214
Payment of lease obligation	19.3	(5,230,457)	(4,373,036)
Net cash flows used in financing activities		**(196,045,599)**	**(83,070,943)**
Effect of exchange rate changes on cash and cash equivalents		**19,065,845**	**15,602,128**
Net increase in cash and cash equivalents		**307,553,784**	**517,634,047**
Cash and cash equivalents brought forward		**1,155,879,451**	**638,245,404**
Cash and cash equivalents carried forward	13.3	**1,463,433,235**	**1,155,879,451**

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

1. CORPORATE INFORMATION

XacBank LLC is principally engaged in the business of providing banking and financial services pursuant to License No. 24 issued by the Bank of Mongolia (“BoM”). There have been no significant changes in the nature of the Bank’s activities during the year.

The Bank is a limited liability company, incorporated and domiciled in Mongolia. The Bank’s registered address and the principal place of business is at XacBank Building, Prime Minister Amar's Street, Sukhbaatar District, Ulaanbaatar, Mongolia.

The holding company of the Bank is TenGer Financial Group LLC, (“TFG” or the “Company”) which is incorporated in Mongolia. The shareholders of the holding company are:

- Mongolyn Alt (MAK) Corporation LLC
- International Finance Corporation (IFC)
- ORIX Corporation
- European Bank for Reconstruction and Development (EBRD)
- National Bank of Canada (NBC)
- Ronoc Partners S.A.R.L.
- Mongolia Financial Services
- Triodos Fair Share Fund
- Open Society Forum
- UB Rotary Club
- Boldoo Magvan
- Ganbold Chuluun

The financial statements of the Bank were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 30 March 2021.

2. BASIS OF PREPARATION

2.1 Basis of preparation

The financial statements of the Bank have been prepared on a historical cost basis, except for derivative financial instruments, investment properties, debt and equity instruments at fair value through OCI and financial assets at FVTPL which have been measured at fair value. The financial statements are presented in Mongolian Togrog, which is denoted by the symbol MNT, and all values are rounded to the nearest thousands, except when otherwise indicated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non–current) is presented in Note 30.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Significant events and transactions in the current year

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Bank. The Bank has been taking all necessary precautions and measures to protect its staff, customer and other stakeholders. On the other hand, the Mongolian government and the local regulator has announced various measures to stimulate the economy in order to overcome the negative impact arising from the pandemic and other measures such as reduction of the policy rate to support the banking sector and Government grants such as partial exemption from the social security contributions. Following the initiatives taken by the Mongolian Government, in 2020 the Bank has restructured loans agreements for a total carrying value MNT 387.2 billion that leaded to a loss of MNT 2.1 billion accounted for in net credit loss expense (Note 9). Loan modifications were only available for those borrowers who had been affected by Covid-19 pandemic. The modifications included repayments deferral of loans' principal and interest for up to 6 months (some cases up to 12 months) and penalty interest on past due loans waivers. In addition, the Bank accounted for Government Grant in relation to SHI for a total amount of approximately MNT 1.7 billion. The Bank did not reduce the number of staff due to Covid-19 outbreak and did not ask for any rent concession.

2.2 Significant accounting judgments, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.
The most significant uses of judgment and estimates are as follows:

2.2 Significant accounting judgments, estimates and assumptions (Contd.)

Classification of financial assets

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed. Monitoring is part of the Bank's continuous assessment of whether the business model continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of the remaining assets.

Measurement of ECL

The measurement of ECL involves significant management estimates and judgement in the following key areas:

- Significant increase of credit risk: ECL is measured as an allowance equal to 12-months ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.
  Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Sale of mortgage loans sold to "MIK Holding" JSC ("MIK")

The Bank has sold mortgage loan portfolios to MIK and its subsidiaries in exchange for bonds issued by MIK SPC and derecognised the loans as it is considered that the transactions meet the derecognition criteria as envisaged in IFRS 9.3.2 on the basis that the Bank has transferred substantially all the risks and rewards. Although there is a mandatory buy back by the Bank if the default rate of the mortgage loans purchased reaches 20%, any such buy back would be at fair value. Management judgment is required to determine whether substantially all the risks and rewards have been transferred.

2.2 Significant accounting judgments, estimates and assumptions (Contd.)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions.

Whilst the Bank considers these valuations are the best estimates at present, the uncertainy casued by the Covid-19 pandemic has resulted in greater market volatility, leading to higher degree of uncertainty in respect of the valuations in the current year. Persistent uncertainty or sudden deteroriation in the market environment may cause further disruptions or volatility, as such significant changes in the underlying assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See note 29 for further disclosures.

Valuation of premises

In 2018, the Bank changed its accounting policy for the premises from cost to revaluation model during the year. The determination of the fair value requires judgement regarding the selection of appropriate valuation techniques and assumptions. The Bank has engaged a certified valuer to value the premises. Any material change in the assumptions and valuation to techniques will have an impact on the revaluation reserve for premises.

Fair values of investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. The determination of the fair value involves certain assumptions of market conditions which are set out in note 21.

In relying on the valuation reports, the directors of the Bank have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Whilst the Directors consider that the valuations carried out are the best estimates, the ongoing Covid-19 pandemic has resulted in greater market volatility depending on how the Covid-19 pandemic may progress and evolve, which have led to higher degree of uncertainties in respect of the valuations in the current year.

The Management of the Bank have performed internal assessment on the risks of change in macroeconomic environment through performing sensitivity analysis in relation to the Bank's investment properties.

As at 31 December 2020, the carrying amount of the Bank's investment properties is MNT 21,260,252 thousand (2019: MNT 31,919,060 thousand).

Valuation of properties held for sale and foreclosed properties

Properties held for sale and Foreclosed properties are stated at lower of cost and fair value less cost to sell. Fair value of properties held for sale and foreclosed properties are based on the valuations performed by independent external professional valuers or internal valuers.

The Management of the Bank have performed internal assessment on the risks of change in macroeconomic environment through performing sensitivity analysis in relation to the Bank's properties held for sale and foreclosed properties.

As at 31 December 2020, the carrying amount of the Bank's properties held for sale and foreclosed properties are MNT 2,607,895 thousand and MNT 27,792,595 thousand respectively (2019: MNT 3,418,378 thousand and MNT 18,357,196).

2.2 Significant accounting judgments, estimates and assumptions (Contd.)

Deferred tax asset

Deferred tax asset is recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which can be utilised. Judgment is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

In spite of disruptions in operations from Covid-19 during the year, the Bank has maintained its operating profitability at sufficient level with respect to recognised deferred tax assets under its current tax plan which does not anticipate significant operating challenges until next assessment period of deferred tax assets.

Tax legislation

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and 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 that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for four calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax and other areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank.

As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity. Management performs regular re-assessment of tax risks and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs)

New standards and amendments to IFRSs that are mandatorily effective for the current year

In the current period, the Bank has applied for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board ('IASB') which are mandatorily effective for an annual period beginning on or after 1 January 2020 for the preparation of the Bank's financial statements:

Effective for annual periods beginning on or after	New Standards or Amendments
1 January 2020	► Amendments to IFRS 3 *Definition of a Business* ► Amendments to IAS 1 and IAS 8 *Definition of Material* ► Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform*
1 June 2020	► Amendment to IFRS 16 *Covid-19-Related Rent Concessions*

The application of the new and amendments to IFRSs in the current year has had no material impact on the Bank's financial positions and performance for the current and prior years and/or on the disclosures set out in these financial statements.

New standards and amendments to IFRSs that have been issued but are not yet effective.

The new 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 and amendments, if applicable, when they become effective.

Effective for annual periods beginning or after	New Standards or Amendments
1 January 2021	► IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2*
1 January 2022	► Amendments to IFRS 3 *Reference to the Conceptual Framework* ► Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* ► Amendments to IAS 16 *Property, Plant and Equipment: Proceeds before Intended Use* ► Amendments to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract* ► Amendments to IFRS Standards *Annual Improvements to IFRS Standards 2018-2020*
1 January 2023	► IFRS 17 *Insurance Contracts*
To be determined	► Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Except for the new and amendments to IFRSs mentioned below, the directors of the Bank anticipate that the application of all other new and amendments to IFRSs will have no material impact on the financial statements in the foreseeable future.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs) (Contd.)

New standards and amendments to IFRSs that have been issued but are not yet effective. (Contd.)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform - Phase 2*

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying IFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRSs requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16;
- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and
- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Bank is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Bank has several London Interbank Offered Rate ("LIBOR") bank loans which will be subject to interest rate benchmark reform. The management of the Bank is in the process of reviewing the application of these new and revised IFRSs. The determination of the impact of the financial statements is not complete yet, therefore it is not practicable to provide a reasonable estimate of the effects of these new and revised IFRSs until the Bank completes the detailed review.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current and related amendments*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation*.

Based on the Bank's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Bank's liabilities.

The management of the Bank is in the process of reviewing the application of these new and revised IFRSs. The determination of the impact of the financial statements is not complete yet, therefore it is not practicable to provide a reasonable estimate of the effects of these new and revised IFRSs until the Bank completes the detailed review.

2.4 Summary of significant accounting policies

Foreign currency translation

The financial statements of the Bank are presented in Mongolian Togrogs (MNT), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non–trading activities are taken to 'Net other operating (loss)/income' in the statement of comprehensive income. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss for the period except for the exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Net Interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest and similar income' and 'Interest and similar expense' respectively using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, under 'Net trading loss' and 'Net income from other financial instruments at FVTPL'. Interest income or expense on financial instruments that are measured at amortised cost and fair value through other comprehensive income is determined using the effective interest rate method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost, net of the ECL allowance, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit adjusted effective interest rate is applied to the amortised cost.

(ii) Net fee and commission income

Fee and commission income and expense comprise fees other than those that are an integral part of EIR (see above), and include fees charged for servicing a loan, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

2.4 Summary of significant accounting policies (Contd.)

Recognition of income and expenses (Contd.)

(ii) Net fee and commission income (Contd.)

Fee and commission income with regards to services are accounted for when (or as) a performance obligation is satisfied i.e. when control of the services underlying the particular performance obligation is transferred to the customer.

Fee and commission expense with regards to services are accounted for as the services are received.

(iii) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held-for-trading'.

(iiii) Net income from other financial instruments at FVTPL

Net income from other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL.
The fair value movement on derivatives held for economic hedging where hedge accounting is not applied are presented in ‘Net income from other financial instruments at FVTPL’.

Financial instruments – initial recognition and subsequent measurement

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVTOCI, resulting in an immediate accounting loss.

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Financial assets- Classification and measurement

The classification of financial assets is determined by the contractual cash flows test referred to as “solely payment of principal and interest” (SPPI) and a business model test.

Financial assets that fail the SPPI test is measured at FVTPL.

For assets passing the SPPI test, a business model test assesses the objective of holding the asset.

The business model test for financial assets is summarised below:

Financial assets are measured at amortised cost if they are held within a business model where the objective is to hold financial assets in order to collect contractual cash flows (“hold to collect” business model).

Financial assets are measured at FVTOCI if they are held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets (“hold to collect and sell” business model).

Financial assets are measured at FVTPL if they do not meet the business model criteria of either “hold to collect” or “hold to collect and sell”.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement (Contd.)

(iii) Financial assets measured at amortised cost

On initial recognition, financial assets are recognised at their fair value, including transaction costs directly attributable to the transaction as well as commissions related to the origination of the loans. They are subsequently measured at amortised cost, including accrued interest and net of repayments of principal and interest during the past period. These financial assets are also subject from initial recognition, to the measurement of ECL allowance.

Interest is calculated using the effective interest method determined at inception of the contract.

This category includes, in particular, cash and balances with BOM, loans and advances to customers, due from banks, repurchase agreements and debt securities issued by the Government and Bank of Mongolia.

(iv) Financial assets measured at FVTOCI

Debt instruments

Debt instruments are classified at FVTOCI if the following two criteria are met:

- Business model criterion: Financial assets are held in a business model whose objective is achieved by both holding the financial assets in order to collect contractual cash flows and selling the financial assets (“collect and sale”). The latter is not incidental but is an integral part of the business model.

- Cash flow criterion: The principles are identical to those applicable to financial assets at amortised cost.

On initial recognition, financial assets are recognised at their fair value, including transaction costs directly attributable to the transaction. They are subsequently measured at fair value and changes in fair value are recognised in other comprehensive income. These financial assets are also subject to the measurement of an ECL allowance on the same approach as for debt instruments at amortised cost. On disposal, changes in fair value previously recognised in other comprehensive income are reclassified to profit or loss.
In addition, interest is recognised in the income statement using the effective interest method determined at the inception of the contract.

Equity instruments

All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the entity has elected to present value changes in other comprehensive income. There is no cost exception for unquoted equities. On disposal of the equity instruments, changes in fair value previously recognised in other comprehensive income are not recognised in profit or loss. Only dividends, if they represent remuneration for the investment and not repayment of capital, are recognised in profit or loss. These instruments are not subject to impairment.

The Bank has elected to present value changes of equity investments in other comprehensive income.

(v) Financial assets measured at FVTPL

A financial instrument may be designated as at FVTPL only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both, that the Bank manages and evaluates on a fair value basis; or (c) relates to a financial liability that contains an embedded derivative which is not evidently closely related to the host contract.

This category includes derivative financial instruments and investments in residential mortgage backed securities ("RMBS").

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement *(Contd.)*

(vi) Borrowed funds and subordinated loans

Borrowed funds and subordinated loans are contractual obligations to local and foreign financial institutions.

After initial measurement, borrowed funds and subordinated loans are subsequently measured at amortised cost. The amortised cost of borrowed funds and subordinated loans is calculated using EIR by taking into account any transaction costs related to the transaction.

An analysis of the Bank's borrowed funds and subordinated loans are disclosed in Note 22.4 and Note 22.5, respectively.

(vii) Due to banks

This includes deposits from other banks and financial institutions in foreign currency and local currency accounts and time deposits placed by local and foreign commercial banks and BoM (Note 22.2).

After initial measurement, borrowings are subsequently measured at amortised cost using the EIR.

(viii) Due to customers

This includes current, savings and time deposits from customers (Note 22.3).

After initial measurement, due to customers are subsequently measured at amortised cost using the EIR.

(ix) Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a Bank are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank’s revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in net fees and commission income.

The Bank has not designated any financial guarantee contracts as at FVTPL.

(x) Commitments to provide a loan at a below-market interest rate

Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank’s revenue recognition policies.

Commitments to provide a loan below market rate not designated at FVTPL are presented as provisions in the statement of financial position and the remeasurement is presented in other revenue.

The Bank has not designated any commitments to provide a loan below market rate at FVTPL.

2.4 Summary of significant accounting policies (Contd.)

Impairment of financial assets measured at amortised cost and debt instruments measured at FVTOCI

The impairment model for credit risk is based on expected losses. This model applies to loans and debt instruments measured at amortised cost or FVTOCI, to loan commitments and financial guarantee contracts that are not recognised at fair value, as well as to trade receivables. No impairment loss is recognised on equity investments.

(i) General model

The Bank identifies three 'stages' that correspond each to a specific status with regards to the evolution of counterparty credit risk since the initial recognition of the asset.

- 12-months ECL ('stage 1'): If at the reporting date, the credit risk of the financial instrument has not increased significantly since its initial recognition, this instrument is impaired at an amount equal to 12-months ECL (resulting from the risk of default within the next 12 months).
- Lifetime ECL for non-impaired assets ('stage 2'): The loss allowance is measured at an amount equal to the lifetime ECL if the credit risk of the financial instrument has increased significantly since initial recognition, but the financial asset is not credit impaired.
- Lifetime ECL for credit-impaired financial assets ('stage 3'): when an asset is "credit-impaired", the loss allowance is also measured at an amount equal to the lifetime ECL.

This general model is applied to all instruments within the scope of IFRS 9 impairment, except for purchased or originated credit-impaired financial assets and instruments for which a simplified model is used (see below).

The IFRS 9 expected credit loss approach is symmetrical, i.e. if lifetime ECL have been recognised in a previous reporting period, and if it is assessed in the current reporting period that there is no longer any significant increase in credit risk since initial recognition, the loss allowance reverts to a 12-months ECL.

Regarding interest income, under 'stage' 1 and 2, it is calculated on the gross carrying amount. Under 'stage' 3, interest income is calculated on the amortised cost (i.e. the gross carrying amount adjusted for the ECL allowance).

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators.

2.4 Summary of significant accounting policies (Contd.)

Impairment of financial assets measured at amortised cost and debt instruments measured at FVTOCI (Contd.)

Significant increase in credit risk

The Bank monitors all financial assets, that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-months ECL. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

(ii) Simplified model

The simplified approach consists in accounting for a loss allowance corresponding to lifetime ECL since initial recognition, and at each reporting date. The Bank applies this model to trade receivables.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is 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. A write-off constitutes a derecognition event.

However, a write-off in accounting terms does not imply debt forgiveness in the legal sense as recovery actions on cash due by the counterparty are pursued particularly if the latter's fortune improve. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities are recognized as impairment gains upon receipt.

2.4 Summary of significant accounting policies (Contd.)

Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of comprehensive income.

Derivative financial instruments

The Bank enters into derivative financial instruments which are are held to manage its exposure to foreign exchange rate risk. Derivative held include foreign exchange forward contracts and cross currency swaps. Further details of derivative financial instruments are disclosed in note 14.2.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognised in profit or loss. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

2.4 Summary of significant accounting policies (Contd.)

Derecognition of financial assets and financial liabilities (Contd.)

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

Modification of financial assets /financial liabilities

A modification of a financial asset /financial liability occurs if the contractual cash flows are renegotiated or otherwise modified.

When the contractual terms of a financial asset / financial liability are modified, the Bank assesses whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Bank considers the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received,and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset (after reducing gross carrying amount that has been written off) and financial liability.

For non-substantial modifications of financial assets and financial liabilities that do not result in derecognition, the carrying amount of the relevant financial assets and financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial assets and financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial assets and financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial asset and financial liabilities is recognised in profit or loss at the date of modification.

2.4 Summary of significant accounting policies (Contd.)

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with BoM and amounts due from banks on demand or with an original maturity of three months or less.

Property and equipment

Premises comprising of land and buidings held for use for providing services or for administrative purpose are stated in the financial position at fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses. All other items of property and equipment are stated at cost less less subsequent accumulated depreciation and subsequent accumulated impairment losses (if any).

Properties in the course of construction for providing services or for administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

In 2018, the Bank changed its accounting policy for the revaluation of premises (land and buildings) from cost model to the revlaluation model.

Premises held for use are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising from revaluation of property is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of property and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is recognised so as to write off the cost or revalued amount of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

2.4 Summary of significant accounting policies (Contd.)

Property and equipment (Contd.)

Depreciation of property and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Buildings	40 years
Office furniture	10 years
Computer equipment and others	3 - 10 years
Vehicles	10 years
Leasehold improvements	Lower of lease term or useful lives
Freehold land	Not depreciated

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in statement of comprehensive income.

Intangible assets

The Bank's other intangible assets include the value of computer software and licenses, software under development and patents and rights.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.
Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software	1 - 10 years
Patents and rights	1 - 10 years

Investment properties

Investment properties include property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the process of providing services or for administrative purposes.

Investment properties are initially measured at cost, including transaction costs. Investment properties are subsequently measured at fair value. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Gains or losses arising from changes in the fair value of investment properties are recognised in the profit or loss account in the year they arise.

2.4 Summary of significant accounting policies (Contd.)

<u>Leases</u>

Definition of 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.

The Bank as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to leases of branches that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Bank; and
- an estimate of costs to be incurred by the Bank in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Bank is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Bank obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property and equipment.

Right-of-use assets are presented within line item of property and equipment on the statement of financial position.

The Bank presents right-of-use assets that do not meet the definition of investment property or inventory in "property and equipment", the same line item within which the corresponding underlying assets would be presented if they were owned. Right-of-use assets that meet the definition of investment property and inventory are presented within "investment properties" and "properties for/under development"/"properties for sale" respectively.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

2.4 Summary of significant accounting policies (Contd.)

Leases (cont'd)

The Bank as a lessee (cont'd)

Lease liabilities

At the commencement date of a lease, the Bank recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:
- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- 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 by the Bank under residual value guarantees;
- the exercise price of a purchase option if the bank is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Bank exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Bank remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:
- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Leases liabilities are presented as a separate line item on the statement of financial position and disclosed separately in the notes.

Lease modifications

The Bank accounts for a lease modification as a separate lease if:
- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Bank remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

2.4 Summary of significant accounting policies (Contd.)

Impairment of non–financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash–generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

Employee benefits

(i) Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

As required by law, companies in Mongolia make contributions to the government pension scheme, Social and Health Fund. Such contributions are recognised as an expense in profit or loss as incurred. The Bank also contributes to a defined contribution pension plan. The contribution paid is recorded as an expense under "Pension fund expense" in proportion to the services rendered by the employees to the Bank.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

2.4 Summary of significant accounting policies (Contd.)

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

Deferred tax asset are recognised for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax asset and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Bank applies IAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax asset and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

In assessing any uncertainty over income tax treatments, the Bank considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

2.4 Summary of significant accounting policies (Contd.)

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholder. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the statement of financial position date.

Equity reserves

The reserves recorded in equity on the Bank's statement of financial position include:

'Other reserves' which represent appropriations of retained earnings based on the decision of the Bank's Board of Directors. The purpose of this account is not specified at present.

'Regulatory reserve' is set up in compliance with the BoM requirement and is distributable to the Shareholder of the Bank subject to BoM's approval. The Regulatory Reserve is created as an appropriation of retained earnings based on the decision made by the management of the Bank or other authorised body, such as the Bank's management in accordance with the regulation of the Bank of Mongolia. Regulatory reserve represents a difference between impairment provision determined for loan loss and impairment of repossessed assets in accordance with the regulations of BOM and impairment provision determined under IFRS. This reserve represents a part of other reserve and is distributable to shareholder of the Bank subject to BOM's approval.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

When the Bank receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the statement of comprehensive over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

Precious metals

Coins and cultural valuables are stated at the lower of cost and net realisable value.

Repossessed assets

Repossessed assets are initially recognised at the lower of their fair values less costs to sell and the amortised cost of the related outstanding loans on the date of the repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair value less costs to sell and are included in 'Other assets'.

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category. Assets that are determined better to be sold are immediately transferred to 'Properties held for sale'. Repossessed assets where the Bank is yet to determine its use are retained under this account.

2.4 Summary of significant accounting policies (Contd.)

Properties held for sale

Properties held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Repossessed assets are classified as properties held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Segment reporting

The Bank's segment reporting is based on the following operating segments: retail banking, business banking, Treasury .

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Bank (after adjusting for interest on the convertible preference shares and interest on the convertible bond, in each case net of tax, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Transactions with related parties

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

- 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;
- the Bank and the party are subject to common control;
- 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 individuals;
- the party is a close family member or is an entity under the control, joint control or significant influence of such individuals; or
- 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.

All material transactions and balances with the related parties are disclosed in the relevant notes to financial statements and the details are presented in Note 32.

3. SEGMENT INFORMATION

For management purposes, the Bank is organised into three operating segments based on products and services as follows:

Retail banking	-	Individual customer's current accounts, savings, credit and debit cards, micro, small and medium loans, consumer loans, financial leasing, eco loans, as well as payments and remittances.
Business banking	-	Commercial banking activities for SME and corporate customers including deposits, overdrafts, loan, trade finance and other credit facilities as well as international remittances.
Treasury	-	Cash management, BOM securities, interbank loans and deposits, and financial instruments trading.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a Bank wide basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2020 or 2019.

GEOGRAPHICAL INFORMATION

All the Bank's activities were carried out in Mongolia during the years ended 31 December 2020 and 2019. Therefore, no geographical analysis is presented.

3. SEGMENT INFORMATION (Contd.)

The following table presents income and profit and certain asset and liability information related to the Bank's operating segments for 2020.

	Retail Banking	Business Banking	Treasury	Total
	2020 MNT'000	2020 MNT'000	2020 MNT'000	2020 MNT'000
Income				
Third party	81,335,621	55,714,154	(12,201,599)	124,848,176
Inter–segment	12,448,240	(35,944,007)	23,495,767	-
	93,783,861	**19,770,147**	**11,294,168**	**124,848,176**
Net (expense)/reversal of credit loss expense	(6,825,460)	(12,195,916)	-	(19,021,376)
Operating income	**86,958,401**	**7,574,231**	**11,294,168**	**105,826,800**
Results				
Net interest income/(expense)	68,752,149	52,074,307	(8,680,167)	112,146,289
Net fees and commission income	13,155,822	3,359,614	-	16,515,436
Net trading loss	-	-	(5,270,026)	(5,270,026)
Depreciation of property and equipment	(5,372,145)	(599,139)	(665,710)	(6,636,994)
Depreciation of right of use	(3,712,990)			(3,712,990)
Amortisation of intangible assets	(2,151,485)	(239,054)	(265,615)	(2,656,154)
Other operating expenses	(44,021,712)	(9,087,744)	(2,289,488)	(55,398,944)
Amortisation of deferred grants	-	1,174,729	-	1,174,729
Net other operating (expense)/income	(572,351)	280,233	1,748,595	1,456,477
Net expense of credit loss	(6,825,460)	(12,195,916)	-	(19,021,376)
Inter segment	12,448,240	(35,944,007)	23,495,767	-
Segment profit for the year before tax	**31,700,068**	**(1,176,977)**	**8,073,356**	**38,596,447**
Income tax expense	(6,725,136)	332,615	(2,411,952)	(8,804,473)
Profit for the year after tax	**24,974,932**	**(844,362)**	**5,661,404**	**29,791,974**
Other segment information				
Capital expenditures:				
Property and equipment	2,068,258	362,870	-	2,431,128
Other intangible assets	4,175,573	1,096,336	-	5,271,909
	6,243,831	**1,459,206**	**-**	**7,703,037**
Total segment assets	**2,029,058,919**	**502,692,818**	**711,939,570**	**3,243,691,307**
Total segment liabilities	**1,823,704,721**	**432,802,884**	**710,546,400**	**2,967,054,005**

3. SEGMENT INFORMATION (Contd.)

The following table presents income and profit and certain asset and liability information related to the Bank's operating segments for 2019.

	Retail Banking	Business Banking	Treasury	Total
	2019	2019	2019	2019
	MNT'000	MNT'000	MNT'000	MNT'000
Income				
Third party	121,948,762	38,291,065	(58,859,124)	101,380,703
Inter–segment	(41,070,135)	(29,686,886)	70,757,021	-
	80,878,627	**8,604,179**	**11,897,897**	**101,380,703**
Net (expense)/reversal of credit loss expense	4,581,574	(22,774,136)	-	(18,192,562)
Operating income	**85,460,201**	**(14,169,957)**	**11,897,897**	**83,188,141**
Results				
Net interest income/(expense)	100,709,302	54,440,828	(52,065,117)	103,085,013
Net fees and commission income	11,651,502	4,004,030	-	15,655,532
Net trading loss	-	-	(8,885,720)	(8,885,720)
Depreciation of property and equipment	(5,082,361)	(1,362,779)	(362,751)	(6,807,891)
Depreciation of right of use	(4,081,719)	-	-	(4,081,719)
Amortisation of intangible assets	(1,983,613)	(255,697)	64,945	(2,174,365)
Other operating expenses	(45,162,996)	(11,534,767)	(1,347,281)	(58,045,044)
Amortisation of deferred grants	-	2,064,769	-	2,064,769
Net other operating (expense)/income	9,587,958	(20,153,793)	2,091,713	(8,474,122)
Net expense of credit loss	4,581,574	(22,774,136)	-	(18,192,562)
Inter segment	(41,070,135)	(29,686,886)	70,757,021	-
Segment profit for the year before tax	**29,149,512**	**(25,258,431)**	**10,252,810**	**14,143,891**
Income tax expense	(5,088,213)	(404,181)	(4)	(5,492,398)
Profit for the year after tax	**24,061,299**	**(25,662,612)**	**10,252,806**	**8,651,493**
Other segment information				
Capital expenditures:				
Property and equipment	2,040,193	302,863	-	2,343,056
Other intangible assets	1,184,851	289,085	-	1,473,936
	3,225,044	**591,948**	**-**	**3,816,992**
Total segment assets	**2,293,505,291**	**615,211,865**	**544,257,842**	**3,452,974,998**
Total segment liabilities	**2,131,372,123**	**553,478,051**	**522,291,532**	**3,207,141,706**

4. NET INTEREST INCOME

INTEREST AND SIMILAR INCOME

	2020 MNT'000	2019 MNT'000
Financial instruments at amortised cost and FVTOCI		
Loans and advances to customers	262,348,500	316,131,960
Debt securities	91,438,323	18,275,106
Cash and balances with central bank	6,151,726	8,164,691
Swap interest	5,482,318	4,368,945
Due from banks	643,169	5,393,057
Reverse repurchase agreements	344,753	1,520,506
	366,408,789	353,854,265

The total interest income calculated using the EIR method for financial assets at FVTOCI is MNT 2.9 billion during the financial year 2020 and for financial assets measured at amortised cost is MNT 363.5 billion during the financial year 2020. (2019: FVTOCI is MNT 4.5 billion and at amortised cost is MNT 349.3 billion).

INTEREST AND SIMILAR EXPENSE

	2020 MNT'000	2019 MNT'000
Financial instruments at amortised cost		
Due to customers	142,898,546	148,959,874
Borrowed funds	75,262,163	73,074,036
Swap interest	33,256,565	14,424,036
Subordinated loans	5,204,590	10,228,088
Interest expense for leasing arrangement	308,510	833,560
Repurchase agreements	265,032	871,063
Due to banks	179,883	5,595,628
Other interest expenses	142,293	181,842
	257,517,582	254,168,127
NET INTEREST INCOME	108,891,207	99,686,138

5. NET FEES AND COMMISSION INCOME

	2020 MNT'000	2019 MNT'000
Fees and commission income		
Card related fees and commissions	12,885,258	12,206,523
Remittance, trade finance and other fees	6,682,962	7,707,094
Account service fees and commissions	2,595,764	2,418,190
Credit related fees and commissions	731,416	656,235
	22,895,400	22,988,042
Fees and commission expenses		
Card transaction charges	4,714,123	4,290,734
Bank service charges	1,615,531	2,979,511
Credit related commissions	50,310	62,265
	6,379,964	7,332,510
Net fees and commission income	16,515,436	15,655,532

6. NET TRADING LOSS

	2020 MNT'000	2019 MNT'000
Foreign exchange	3,283,136	4,131,380
Derivative instruments	(9,118,698)	(13,081,969)
Precious metal	274,161	24,339
Interest income on Senior RMBS Securities (FVTPL)	365,432	38,787
Fair value changes in Senior RMBS (FVTPL)	(74,057)	1,743
	(5,270,026)	**(8,885,720)**

Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives.

7. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FVTPL

Net income from financial instruments mandatorily measured at FVTPL other than held for trading

	2020 MNT'000	2019 MNT'000
Interest income on Junior RMBS Securities	3,797,026	3,358,073
Fair value changes in Junior RMBS	(517,190)	502,102
Fair value changes in Closed ended Investment Fund	(24,754)	(174,052)
Trading loss of Closed ended Investment Fund	-	(287,248)
	3,255,082	**3,398,875**

8. NET OTHER OPERATING INCOME (EXPENSE)

	2020 MNT'000	2019 MNT'000
Reveral/(loss) of Impairment on foreclosed properties (net) (Note 17)	2,447,205	(4,338,160)
Non-trade foreign exchange gain	1,748,592	2,220,165
Rental income	868,249	940,448
Other operating income	236,620	539,370
Gain on disposal of property and equipment	41,106	60,504
Gain (loss) on disposal of investment property	2,080	(2,300)
Loss on disposal of Loans and advances to customers	(223,798)	-
Loss disposal of property held for sale (Note 18)	(268,824)	(295,881)
Loss on disposal of foreclosed properties (Note 17)	(308,818)	(1,689,574)
Fair value loss on investment property (Note 21)	(3,085,935)	(5,908,694)
	1,456,477	**(8,474,122)**

9. NET EXPENSE OF CREDIT LOSS

	2020 MNT'000	2019 MNT'000
Loans and advances to customers (Note 15, Note 16.3)	(15,908,049)	(18,821,527)
Modification loss on Loans and advances to customers	(2,143,945)	-
Other non-financial assets (Note 17)	(242,980)	(146,328)
Other financial assets (Note 17)	(260,791)	(39,516)
Due from banks (Note 16.1)	(233,422)	-
Contingent liability and commitments (Note 25)	(257,582)	122,806
Mandatory cash balances with BOM (Note 13.2)	-	673,949
Debt securities (Note 16.2)	25,393	18,054
	(19,021,376)	**(18,192,562)**

9. NET EXPENSE OF CREDIT LOSS EXPENSE (Contd.)

The Government of Mongolia instructed banks to suspend collection of interest and principal payments on mortgage loans from March 2020 until the end of June, 2021. As a result, the Bank recognized a modification loss of MNT 2,143,945 thousand in profit or loss.

10. OPERATING EXPENSES

	2020 MNT'000	2019 MNT'000
Personnel expenses*	31,846,405	32,108,599
Depreciation of property and equipment (Note 19)	6,636,994	6,807,891
IT and communications	6,600,640	5,675,603
Deposit insurance expense	3,988,806	4,298,967
Depreciation of right of use assets (Note 19)	3,712,990	4,081,719
Amortisation of intangible assets (Note 20)	2,656,154	2,174,365
Loan collection expenses	1,454,346	445,190
Outside service fees	1,597,435	3,246,037
Armored guard and security	1,196,167	1,231,870
Stationary	1,052,127	999,007
Utilities	997,771	1,032,842
Advertising	817,628	1,457,565
Transportation	570,987	698,563
Insurance	538,116	502,688
Membership and audit expenses	490,233	465,250
Meeting and staff activity	423,255	852,221
Repairs and maintenance	407,988	1,114,187
Business trip expenses	179,440	747,369
Donations	112,084	113,981
Intangible asset written-off (Note 20)	46,400	-
Penalty	34,060	140,747
Property and equipment written-off (Note 19)	58,443	-
Rental of premises	10,199	189,123
Other operating expenses	2,976,414	2,725,235
	68,405,082	**71,109,019**

*** Personnel expenses**		
Salaries, wages and bonus	29,183,061	27,784,985
Contribution to social and health fund	2,079,526	3,591,761
Employer of contribution to defined contribution pension plan	530,146	560,738
Staff training	53,672	171,115
	31,846,405	**32,108,599**

* As a response to the COVID-19 global pandemic, the Parliament of Mongolia has passed a Law on Covid-19 prevention, fight, and mitigation of its socioeconomic impact on April 29, 2020. By this law, the Bank is exempted from paying Contribution to social and health fund from April 1, 2020 and this resulted in the reduction of payroll related expense in the amount of MNT 1,683 million.

11. CORPORATE INCOME TAX

11.1 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2020 and 2019 are:

	2020 MNT'000	2019 MNT'000
Current tax:		
Current income tax	9,213,855	2,816,643
Deferred tax		
Relating to origination and reversal of temporary differences (Note 11.2)	(409,382)	2,675,755
Income tax expense for the year	**8,804,473**	**5,492,398**

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% (2019: 10%) for the first MNT 6 billion (2019: MNT 3 billion) of taxable income, and 25% (2019: 25%) on the excess of taxable income over MNT 6 billion (2019: MNT 3 billion). Interest income on government bonds is not subject to income tax.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank for the years ended 31 December 2020 and 2019 is as follows:

	2020 MNT'000	2019 MNT'000
Profit before tax	38,596,447	14,143,891
Tax at statutory tax rate of 25% (2019: 25%)	9,649,112	3,535,973
Effect of income tax subject to lower tax rate	(900,000)	(450,000)
Effect of income not subject to tax	(2,891,325)	(2,210,629)
Effect of expenses not deductible for tax purposes	2,788,440	4,570,268
Effect of the special tax for certain type of taxable income	158,246	549,130
Tax effect of utilization of tax losses not previously recognised	-	(502,344)
Tax expense for the year	**8,804,473**	**5,492,398**

The effective income tax rate for 2020 is 22.81% (2019: 38.83%).

11.2 DEFERRED TAX ASSET

	2020 MNT'000	2019 MNT'000
At beginning of the year	1,879,822	4,568,450
Recognised in statement of profit or loss (Note 11.1)	409,382	(2,675,755)
Recognised in other comprehensive income	(337,345)	(12,873)
At end of the year	**1,951,859**	**1,879,822**

11. CORPORATE INCOME TAX (Contd.)

11.2 DEFERRED TAX ASSET (Contd.)

Deferred taxes analysed by type of temporary difference

As at 31 December 2020	1 January 2020 MNT'000	Recognised in statement of profit or loss MNT'000	Recognized in other comprehensive income MNT'000	31 December 2020 MNT'000
Property and equipment	(539,191)	(211,825)	-	(751,016)
Depreciation of right of use assets	42,846	(10,692)	-	32,154
Loans and advances to customers	1,638,608	(306,612)	-	1,331,996
Derivative financial instruments	40,161	56,716	-	96,877
Other liabilities				
Deferral of long term incentive plan	563,810	(158,738)	-	405,072
Accrued expense for employees	764,785	889,529	-	1,654,314
Accrued expense	-	151,004	-	151,004
Securities at FVTOCI	(631,197)	-	(56,477)	(687,674)
Loans and advances to customers at FVTOCI	-	-	(280,868)	(280,868)
Net deferred tax asset/(liability)	**1,879,822**	**409,382**	**(337,345)**	**1,951,859**
Recognised deferred tax asset	3,050,210	621,207 (211,825)	-	3,671,417
Recognised deferred tax liability	(1,170,388)		(337,345)	(1,719,558)
Net deferred tax asset/(liability)	**1,879,822**	**409,382**	**(337,345)**	**1,951,859**

As at 31 December 2019	1 January 2019 MNT'000	Recognised in statement of profit or loss MNT'000	Recognized in other comprehensive income MNT'000	31 December 2019 MNT'000
Property and equipment	(484,901)	(54,290)	-	(539,191)
Depreciation of right of use assets	-	42,846	-	42,846
Loans and advances to customers	2,034,647	(396,039)	-	1,638,608
Derivative financial instruments	697,292	(657,131)	-	40,161
Other liabilities				
Deferral of long term incentive plan	562,553	1,257	-	563,810
Accrued expense for employees	162,013	602,772	-	764,785
Securities at FVTOCI	(618,324)	-	(12,873)	(631,197)
Tax loss carry forward	2,215,170	(2,215,170)	-	-
Net deferred tax asset/(liability)	**4,568,450**	**(2,675,755)**	**(12,873)**	**1,879,822**
Recognised deferred tax asset	5,671,675	(2,621,465)	-	3,050,210
Recognised deferred tax liability	(1,103,225)	(54,290)	(12,873)	(1,170,388)
Net deferred tax asset/(liability)	**4,568,450**	**(2,675,755)**	**(12,873)**	**1,879,822**

12. EARNINGS PER SHARE

The following table shows the income and share data used in the basic and diluted earnings per share calculations:

	2020 MNT'000	2019 MNT'000
Profit for the period and total comprehensive income for the period attributable to equity holders of the Bank	29,791,974	8,651,493
Weighted average number of ordinary shares for basic and diluted earnings per share	20,353,656	20,353,656

Earnings per share

	2020 MNT	2019 MNT
Equity holders of the Bank for the period:		
Basic earnings per share	1,463.72	425.06
Diluted earnings per share	1,463.72	425.06

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

13. CASH AND BANK BALANCES

13.1 CASH AND BALANCES WITH BOM

	2020 MNT'000	2019 MNT'000
Current account with BOM	140,220,791	519,419,273
Cash on hand	39,283,657	51,782,979
	179,504,448	**571,202,252**

13.2 MANDATORY CASH BALANCES WITH BOM

	2020 MNT'000	2019 MNT'000
Mandatory cash balances with BOM	186,372,668	213,044,263
	186,372,668	**213,044,263**

Impairment allowance

	2020 MNT'000	2019 MNT'000
At beginning of the year	-	673,949
Reversal for the year (Note 9)	-	(673,949)
At end of the year	**-**	**-**

Current accounts with BOM are maintained in accordance with BOM's regulations. The balances maintained with BOM are determined at not less than 6.0% and 15.0% (2019: 10.5% and 12.0 %) of customer deposits in local and foreign currency, respectively on average balance of two weeks before year end. As at 31 December 2020, the average reserve required by BOM for that period of 2 weeks was MNT 97,370.6 million (2019: MNT 143,083.62 million) for local currency and MNT 89,002.07 million (2019: MNT 69,960.64 million) for foreign currency maintained in current accounts with BOM.

13. CASH AND BANK BALANCE (Contd.)

13.3 CASH AND CASH EQUIVALENTS

	Note	2020 MNT'000	2019 MNT'000
Cash and balances with BOM	13.1	179,504,448	571,202,252
Due from banks	16.1	76,561,599	122,223,590
BOM treasury bills	16.2	1,207,367,188	462,453,609
Total cash and cash equivalents		**1,463,433,235**	**1,155,879,451**

ADDITIONAL INFORMATION ON NON CASH TRANSACTION

During the year, the Bank sold from 5% to 8% mortgage loans with a carrying amount of MNT 38,543 million (2019: MNT 20,542 million) to MIK for which it received RMBS amounting to MNT 34,688 million (2019: MNT 18,488 million) senior tranche and MNT 3,855 million (2019: MNT 2,054 million) junior tranche.

During the year, the Bank repaid from 2% to 4.0% funding due to BOM, amounting to MNT 22,388 million (2019: MNT 26,934 million), 1.0% to 4.0% funding due to Government of Mongolia, amounting to MNT 8,354 million (2019: Nil), by transferring Senior RMBS carrying the same amount to BOM.

14. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

14.1 FINANCIAL SECURITIES

	2020 MNT'000	2019 MNT'000
Debt securities		
Mongolian Mortgage Corporation HFC LLC-Junior bond	37,248,810	33,850,997
Mongolian Mortgage Corporation HFC LLC-Senior bond	4,066,916	-
Closed Ended Investment Fund	1,040,718	1,065,472
	42,356,444	**34,916,469**

14.2 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair value of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	Assets 2020 MNT'000	Liabilities 2020 MNT'000	Notional amount 2020 MNT'000
Derivatives held for trading			
Currency swaps	68,968,391	728,578	817,274,552
	68,968,391	**728,578**	**817,274,552**

	2019 MNT'000	2019 MNT'000	2019 MNT'000
Derivatives held for trading			
Currency swaps	89,876,981	5,227,460	817,809,951
	89,876,981	**5,227,460**	**817,809,951**

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

Disclosures concerning the fair value of derivatives are provided in Note 29.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Fair value	Changes in fair value taken directly through OCI	Credit loss expense
	2020 MNT'000	2020 MNT'000	2020 MNT'000
As at 31 December 2020			
Equity securities			
Unquoted equities	460,876	(118,576)	-
Quoted equities	3,148,784	2,181,596	-
Loans and advances to customers	63,181,771	-	(925,024)
	66,791,431	**2,063,020**	**(925,024)**

	Fair value	Changes in fair value taken directly through OCI	Credit loss expense
	2019 MNT'000	2019 MNT'000	2019 MNT'000
As at 31 December 2019			
Equity securities			
Unquoted equities	224,439	(295,905)	-
Quoted equities	3,159,315	2,189,494	-
Loans and advances to customers	68,782,951	-	(1,090,793)
	72,166,705	**1,893,589**	**(1,090,793)**

Loans and advances to customers at FVTOCI

	2020 MNT'000	2019 MNT'000
Gross carrying amount	64,106,795	69,873,744
Less: Allowance for impairment losses	(925,024)	(1,090,793)
Net loans and advances to customers	**63,181,771**	**68,782,951**

Impairment allowance for loans and advances to customers at FVTOCI

	2020 MNT'000	2019 MNT'000
At beginning of the year	1,090,793	654,766
(Reversal)/Charge for the year (Note 9)	(165,769)	436,027
At end of the year	**925,024**	**1,090,793**

16. FINANCIAL ASSETS AT AMORTISED COST

16.1 DUE FROM BANKS

	2020 MNT'000	2019 MNT'000
Placement with foreign banks and financial institutions		
Current accounts	44,785,063	34,481,696
Placement with local banks and financial institutions		
Current accounts	1,899,319	2,397,576
Term deposits	30,110,639	85,344,318
Less: Impairment allowance for due from banks	(233,422)	-
	76,561,599	122,223,590

Impairment allowance for due from banks

At beginning of the year	-	-
Charge for the year (Note 9)	233,422	-
At end of the year	233,422	-

16.2 DEBT SECURITIES

	2020 MNT'000	2019 MNT'000
BOM treasury bills (Note 13.3)	1,207,367,188	462,453,609
Government bonds	-	5,312,930
Less: Impairment allowance for debt securities	-	(25,392)
	1,207,367,188	467,741,147

Impairment allowance for debt securities

At beginning of the year	25,392	43,446
Reversal for the year (note 9)	(25,392)	(18,054)
At end of the year	-	25,392

As at December 31, 2020, the carrying amount of BOM treasury bill which have been pledged as security for the fund obtained from BOM, is MNT 20.2 billion.

16.3 LOANS AND ADVANCES TO CUSTOMERS

	2020 MNT'000	2019 MNT'000
Loans and advances to customers at amortised cost		
Gross carrying amount		
Stage 1	1,161,888,469	1,617,420,358
Stage 2	80,655,191	79,074,557
Stage 3	102,360,353	86,712,285
	1,344,904,013	1,783,207,200
Less: Allowance for impairment losses		
Stage 1	(11,198,882)	(12,714,433)
Stage 2	(10,938,298)	(1,712,704)
Stage 3	(49,985,006)	(42,995,479)
	(72,122,186)	(57,422,616)
Net loans and advances to customers	1,272,781,827	1,725,784,584

16. FINANCIAL ASSETS AT AMORTISED COST (CONTD.)

16.3 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

Impairment allowance for loans and advances to customers at amortised cost

	2020 MNT'000	2019 MNT'000
At beginning of the year	57,422,616	64,481,040
Charge for the year (Note 9)	16,073,818	18,385,500
Written off	(1,374,248)	(25,443,924)
At end of the year	72,122,186	57,422,616

17. OTHER ASSETS

	2020 MNT'000	2019 MNT'000
Other financial assets		
Receivables on cash and settlement services	3,616,065	4,465,177
Receivables from companies and individuals	3,049,219	2,320,659
Cash collaterals	1,382,031	1,363,364
Other financial assets	121,654	7,006,242
Less: Impairment allowance for other financial assets	(473,420)	(212,629)
	7,695,549	14,942,813
Impairment allowance for other financial assets		
Stage 1	5,500	4,453
Stage 2	1,323	1,936
Stage 3	466,597	206,240
	473,420	212,629
Impairment allowance for other financial assets		
At beginning of the year	212,629	173,113
Charge for the year (Note 9)	260,791	39,516
At end of the year	473,420	212,629
Other non-financial assets		
Advance to vendor for goods and service	2,569,077	2,833,141
Consumables and other inventories	1,459,451	1,673,006
Prepaid expense	164,190	131,076
Precious metals	94,439	94,439
Other non-financial assets	1,866,207	2,580,571
Less: Impairment allowance for other non-financial assets	(1,508,810)	(1,288,076)
Foreclosed properties	40,198,735	33,210,540
Less: Impairment allowance for foreclosed properties	(12,406,140)	(14,853,344)
	32,437,149	24,381,353
Impairment allowance for other non-financial assets		
At beginning of the year	1,288,076	1,146,498
Charge for the year (Note 9)	242,980	146,328
Written off	(22,246)	(4,750)
At end of the year	1,508,810	1,288,076
Total other assets	40,132,698	39,324,166

17. OTHER ASSETS (Contd.)

	2020 MNT'000	2019 MNT'000
Foreclosed properties		
At beginning of the year	33,210,541	28,633,145
Add: Possession	6,351,568	7,837,743
Add: Transfer from investment property (Note 21)	7,478,873	8,118,253
Add: Transfer from properties held for sale (Note 18)	-	3,453,489
Less: Sold during the year	(4,247,502)	(14,832,089)
Less: Transfer to properties held for sale (Note 18)	(2,594,745)	-
	40,198,735	**33,210,541**
Less: Allowances for impairment losses	(12,406,140)	(14,853,345)
At end of the year	**27,792,595**	**18,357,196**
Impairment allowance for foreclosed properties		
At beginning of the year	14,853,345	10,515,185
Charge for the year (Note 8)	23,434,275	15,088,807
Recoveries (Note 8)	(25,881,480)	(10,750,647)
At end of the year	**12,406,140**	**14,853,345**

Proceeds from the sale of foreclosed properties during the year were MNT 3,939 million (2019: MNT 13,142 million) and the loss on the sale of such properties amounted to MNT 309 million (2019: loss amounted to MNT 1,690 million).

18. PROPERTIES HELD FOR SALE

	2020 MNT'000	2019 MNT'000
At beginning of the year	3,418,378	13,858,798
Add: Transfer from foreclosed properties (Note 17)	2,594,745	-
Less: Sold during the year	(3,127,368)	(5,830,378)
Less: Transfer to property and equipment	(277,860)	-
Less: Transfer to Foreclosed properties (Note 17)	-	(3,453,489)
Less: Transfer to Investment property (Note 21)	-	(1,127,727)
Less: Repayment	-	(28,826)
At end of the year	**2,607,895**	**3,418,378**

Proceeds from the sale of buildings during the year were MNT 2,858 million (2019: MNT 5,534 million). The loss on the sale of those buildings amounted to MNT 269 million (2019: loss amounted to MNT 296 million) and is recorded as part of 'Net other operating expense' (Note 8).

19. PROPERTY AND EQUIPMENT

At 31 December 2020	Leasehold improvements MNT'000	Premises MNT'000	Vehicles MNT'000	Office furniture MNT'000	Computer equipment and others MNT'000	Construc-tion in progress MNT'000	Right of Usage of operating lease MNT'000	Total MNT'000
At cost or revaluation								
At 1 January 2020	**6,173,667**	**34,262,583**	**3,291,451**	**5,828,547**	**42,400,319**	**918,872**	**9,418,345**	**102,293,784**
Additions	275,506	172,238	529,399	34,944	1,337,127	81,914	3,898,174	6,329,302
Transfer from property held for sale	-	359,206	-	-	-	-	-	359,206
Write-off	-	(35,678)	-	(527,019)	(941,370)	-	-	(1,504,067)
Disposals	-	(121,821)	(282,365)	(32,510)	(24,050)	-	-	(460,746)
Modification of lease terms	-	-	-	-	-	-	(667,083)	(667,083)
Reclassification	88,666	-	227,728	-	53,523	(369,917)	-	-
Reclassification to other assets	-	-	-	-	(222,191)	(85,543)	-	(307,734)
At 31 December 2020	**6,537,839**	**34,636,528**	**3,766,213**	**5,303,962**	**42,603,358**	**545,326**	**12,649,436**	**106,042,662**
Accumulated depreciation								
At 1 January 2020	**5,081,337**	**917,456**	**1,429,371**	**2,881,729**	**20,489,169**	**-**	**4,081,719**	**34,880,781**
Charge for the year (Note 10)	894,532	658,047	357,299	514,525	4,212,591	-	3,712,990	10,349,984
Transfer from property held for sale	-	81,346	-	-	-	-	-	81,346
Write-off	-	(2,775)	-	(506,534)	(936,315)	-	-	(1,445,624)
Disposals	-	(3,526)	(169,419)	(32,262)	(19,292)	-	-	(224,499)
At 31 December 2020	**5,975,869**	**1,650,548**	**1,617,251**	**2,857,458**	**23,746,153**	**-**	**7,794,709**	**43,641,988**
Net Carrying amount at 31 December 2020	**561,970**	**32,985,980**	**2,148,962**	**2,446,504**	**18,857,205**	**545,326**	**4,854,727**	**62,400,674**

19. PROPERTY AND EQUIPMENT (CONTD.)

At 31 December 2019	Leasehold improvements MNT'000	Premises MNT'000	Vehicles MNT'000	Office furniture MNT'000	Computer equipment and others MNT'000	Construc-tion in progress MNT'000	Right of Usage of operating lease MNT'000	Total MNT'000
At cost or revaluation								
At 1 January 2019	**5,888,723**	**34,341,523**	**2,575,105**	**5,777,361**	**41,906,278**	**491,656**	**-**	**90,980,646**
Adjustment upon application of IFRS 16	-	-	-	-	-	-	9,172,776	9,172,776
Restated at 1 January 2019	**5,888,723**	**34,341,523**	**2,575,105**	**5,777,361**	**41,906,278**	**491,656**	**9,172,776**	**100,153,422**
Additions	269,509	148,177	-	91,525	1,384,106	449,739	245,569	2,588,625
Write-off	-	-	-	-	(5,009)	-	-	(5,009)
Disposals	-	(227,117)	(111,654)	(40,339)	(64,144)	-	-	(443,254)
Reclassification	15,435	-	828,000	-	(820,912)	(22,523)	-	-
At 31 December 2019	**6,173,667**	**34,262,583**	**3,291,451**	**5,828,547**	**42,400,319**	**918,872**	**9,418,345**	**102,293,784**
Accumulated depreciation								
At 1 January 2019	**4,108,232**	**301,206**	**1,167,556**	**2,389,509**	**16,235,554**	**-**	**-**	**24,202,057**
Charge for the year (Note 10)	973,105	626,000	298,386	525,533	4,384,867	-	4,081,719	10,889,610
Write-off	-	-	-	-	(5,009)	-	-	(5,009)
Disposals	-	(9,750)	(98,671)	(33,313)	(64,143)	-	-	(205,877)
Reclassification	-	-	62,100	-	(62,100)	-	-	-
At 31 December 2019	**5,081,337**	**917,456**	**1,429,371**	**2,881,729**	**20,489,169**	**-**	**4,081,719**	**34,880,781**
Net Carrying amount at 31 December 2019	**1,092,330**	**33,345,127**	**1,862,080**	**2,946,818**	**21,911,150**	**918,872**	**5,336,626**	**67,413,003**

19. PROPERTY AND EQUIPMENT (CONTD.)

19.1 Revaluation of premises

The premises have been revalued as at 31 December 2018 by independent appraisers not related to the Bank. The appraisers are members of Mongolian Institute of Certified Appraisers and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's length terms for similar properties.

Details of the Bank's premises and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Level 3 (net carrying value) 2020 MNT'000	Level 3 (net carrying value) 2019 MNT'000
Market approach	15,328,984	15,390,082
Cost approach	17,656,996	17,955,045
	32,985,980	**33,345,127**

Had the premises been measured on a historical cost basis, their carrying amount would have been as follows.

	2020 MNT'000	2019 MNT'000
Premises	**17,861,900**	**17,960,439**

19.2 Gross carrying amount of fully depreciation property and equipment

	2020 MNT'000	2019 MNT'000
Computer equipment and others	12,046,120	9,179,242
Office furniture	379,723	585,217
Vehicles	30,988	30,988
	12,456,831	**9,795,447**

19. PROPERTY AND EQUIPMENT (CONTD.)

19.3 Right of use assets

Right-of-use assets (included in the property and equipment)

	Premises	
	2020	2019
	MNT'000	MNT'000
As at 1 January		
Carrying amount	5,336,626	9,172,776
As at 31 December		
Carrying amount	4,854,727	5,336,626
For the year ended 31 December		
Depreciation charge	(3,712,990)	(4,081,719)
Addition	3,898,174	245,569
Modification of lease terms	(667,083)	-

	2020	2019
	MNT'000	MNT'000
Expense relating to short-term leases	10,199	189,123
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	1,084,979	1,048,739
Total cash outflow for leases*	5,230,457	4,373,036
Additions to right-of-use assets**	3,898,174	245,569

*Amount includes payments of principal and interest portion of lease liabilities and variable lease payments. These amounts are presented in financing cash flows.

**Amount includes right-of-use assets resulting from new leases entered, lease modification and reassessment/exercise of extension/termination options.

Extension and termination options

The Bank has extension and/or termination options in a number of leases for office and branch spaces. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable by both of the Bank and the respective lessors.

The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. The potential exposures to these future lease payments for (i) extension options in which the Bank is not reasonably certain to exercise and (ii) termination options in which the Bank is not reasonably certain not to exercise are summarised below:

	Lease liabilities recognised as at 31 December 2020 MNT'000	Potential future lease payments not included in lease liabilities (undiscounted) MNT'000	Lease liabilities recognised as at 31 December 2019 MNT'000	Potential future lease payments not included in lease liabilities (undiscounted) MNT'000
Branches	2,524,837	2,930,954	3,762,767	4,159,070
Office space	651,754	754,770	1,104,679	1,181,893

19. PROPERTY AND EQUIPMENT (CONTD.)

19.3 Right of use assets (CONTD.)

In addition, the Bank reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2020, there is no such triggering event.

Leases committed

As at 31 December 2020, the Bank has not entered into new leases that have not yet commenced.

20. INTANGIBLE ASSETS

	Patents and rights MNT'000	Computer software MNT'000	Software under development MNT'000	Total MNT'000
At 31 December 2020				
At cost				
At 1 January 2020	10,256,473	12,346,971	1,007,733	23,611,177
Additions	845,931	217,605	4,208,373	5,271,909
Write-off	(600,225)	(643,458)	-	(1,243,683)
Reclassification	52,865	6,854	(59,719)	-
At 31 December 2020	10,555,044	11,927,972	5,156,387	27,639,403
Accumulated amortisation				
At 1 January 2020	4,486,800	7,059,799	-	11,546,599
Charge for the year	991,954	1,664,200	-	2,656,154
Write-off	(582,241)	(615,042)	-	(1,197,283)
At 31 December 2020	4,896,513	8,108,957	-	13,005,470
Net carrying amount	**5,658,531**	**3,819,015**	**5,156,387**	**14,633,933**
At 31 December 2019				
At cost				
At 1 January 2019	8,646,814	11,838,215	1,678,733	22,163,762
Additions	1,065,211	308,141	100,584	1,473,936
Reclassification	570,969	200,615	(771,584)	-
Cost adjustment	(26,521)	-	-	(26,521)
At 31 December 2019	10,256,473	12,346,971	1,007,733	23,611,177
Accumulated amortisation				
At 1 January 2019	3,346,822	6,025,412	-	9,372,234
Charge for the year	1,139,978	1,034,387	-	2,174,365
At 31 December 2019	4,486,800	7,059,799	-	11,546,599
Net carrying amount	**5,769,673**	**5,287,172**	**1,007,733**	**12,064,578**

21. INVESTMENT PROPERTY

	2020 MNT'000	2019 MNT'000
Beginning of the year	31,919,060	45,260,580
Transfer from properties held for sale (Note 18)	-	1,127,727
Less: Transfer to foreclosed properties (Note 17)	(7,478,873)	(8,118,253)
Less: Sold during the year	(94,000)	(442,300)
Changes in the fair value of investment property (Note 8)	(3,085,935)	(5,908,694)
End of the year	**21,260,252**	**31,919,060**

The fair value of investment properties was appraised by an independent professional valuation company. The fair value of the investment properties is determined with reference to current market prices for similar properties, adjusted as necessary for condition and location, or by reference to recent transactions updated to reflect current economic conditions.

22. FINANCIAL LIABILITIES AT AMORTISED COST

22.1 REPURCHASE AGREEMENTS

	2020 MNT'000	2019 MNT'000
Repurchase agreements	-	297,898,939

The Bank sold BOM bills and MIK junior RMBS with an agreement to repurchase them in the future.

22.2 DUE TO BANKS

	2020 MNT'000	2019 MNT'000
Current accounts from banks and financial institutions	290,161	8,336,172
Term deposits from banks and financial institutions	1,648,748	3,893,139
	1,938,909	**12,229,311**

22.3 DUE TO CUSTOMERS

	2020 MNT'000	2019 MNT'000
Government deposits		
- Current accounts	40,584,622	26,456,318
- Demand deposits	1,683,001	1,628,751
- Time deposits	42,135,371	35,448,029
Private sector deposits		
- Current accounts	280,177,790	212,847,315
- Demand deposits	27,712,086	16,594,751
- Time deposits	58,623,729	106,081,757
Individual deposits		
- Current accounts	75,575,289	51,532,787
- Demand deposits	244,910,580	220,039,955
- Time deposits	1,254,250,480	1,172,550,394
	2,025,652,948	**1,843,180,057**

Included in 'Due to customers' are deposits of MNT 10,866 million (2019: MNT 13,295 million) held as collateral for irrevocable commitments under financial guarantees provided by the Bank as at 31 December 2020 and 2019 respectively.

22. FINANCIAL LIABILITIES AT AMORTISED COST (Contd.)

22.4 BORROWED FUNDS

	2020 MNT'000	2019 MNT'000
Borrowed funds from foreign financial institutions		
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (“FMO”)	183,178,291	13,646,487
Asian Development Bank (“ADB”)	84,819,632	81,116,751
Green Climate Fund ("GCF")	55,761,024	77,803,466
OPEC Fund for International Development ("OFID")	70,986,743	-
INCOFIN CVSO	57,316,516	55,008,707
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	56,251,255	53,744,899
Societe De Promotion Et De Participation Pour La Cooperation Economique S.A ("PROPARCO")	42,351,388	40,359,664
International Finance Corporation	42,314,141	47,276,118
International Bank For Economic Cooperation ("IBEC")	28,388,821	-
SIFEM AG	28,101,009	37,787,773
Symbiotics Sicav (Lux)	27,260,529	27,081,435
ACTIAM FINANCIAL INCLUSION FUND	17,139,460	16,369,873
Micro, Small and Medium Enterprises Bonds S.A.	15,202,159	14,475,253
Raisin Bank AG	14,180,490	13,551,483
FINNISH FUND FOR INDUSTRIAL COOPERATION LTD	14,034,441	27,051,481
Developing World Markets (“DWM”)	13,124,625	26,268,976
Overseas Private Investment Corporation	2,441,710	19,033,616
Global Climate Partnership Fund S.A., SICAV-SIF ("GCPF")	-	40,959,594
IFC Capitalization Fund, L.P	-	51,828,754
INCOFIN CVBA	-	25,930,128
Triodos Custody B.V.- Triodos Fair Share Fund	-	14,840,596
WOMEN ENTREPRENEURS DEBT FUND LP	-	20,489,535
responsAbility Management company S.A.	-	9,185,496
Swedfund International AB	-	13,656,374
CaixaBank S.A	-	27,329,614
Stichting Fondsbeheer DGGF Lokaal MKB	-	13,770,536
Total borrowed funds from foreign financial institutions	**752,852,234**	**768,566,609**
Borrowed funds from government organisations		
Government of Mongolia	37,145,340	54,207,050
Bank of Mongolia	20,113,527	-
Ministry of Finance	11,275,053	16,684,103
Ministry of Finance/ Japan Bank for International Cooperation	9,261,197	10,336,509
SME Development Fund	3,473,616	4,021,472
Asian Development Bank	2,150,834	2,751,083
International Fund for Agriculture Development	45,721	83,303
Development Bank of Mongolia	-	25,359,916
Mongolian Mortgage Corporation	-	13,977,339
Total borrowed funds from government organisations	**83,465,288**	**127,420,775**
Total borrowed funds	**836,317,522**	**895,987,384**

22. FINANCIAL LIABILITIES AT AMORTISED COST (Contd.)

22.4 BORROWED FUNDS (Contd.)

All borrowed funds from government organisations are related to the Government of Mongolia.

The Bank did not have any defaults on principal or interest payments with regard to all liabilities as at 31 December 2020 and 31 December 2019.

As per their debt agreement, the funds raised from foreign lenders require compliance with certain financial covenants, which can be grouped in the following categories:
- capital related ratios (risk weighted capital adequacy ratio for both tier 1 and total capital)
- financial risks related ratios (such as maturity mismatches, currency mismatches, single currency and aggregate foreign currency exchange risk ratio, negative liquidity gap ratio, aggregate interest rate risk ratio and interest rate risk ratio);
- credit related ratios (such as portfolio at risk, open loan exposure ratio, write off ratio, related party lending ratio, single largest borrowers and aggregate of large exposures ratio);
- other financial ratios (deposits to loans ratio, interest coverage ratio, shareholding in single entity, fixed assets to total assets, fixed assets plus equity investments ratio, overhead ratio etc.).

In case of non-compliance to covenants, i.e., in the event of default and such event of default is subsisting, the borrowing becomes immediately payable on demand. For this reason, continuous monitoring of debt covenants is carried out by relevant departments and officers (Financial Management Departement, Risk Management Division and Credit Administration Department direct reporting untis of Chief Finance Officer and Chief Risk Officer). In case of anticipated or noted non-compliance with certain covenants, appropriate pro-active communication to lender as well as issue mitigating action is taken by management. The issue of covenant non-compliance is resolved through self-remedy based on mitigating actions or through acceptance of the breaches based either on request for temporary waiver or based on amendment to agreement.

As of 31 December 2020, The Bank has complied with debt covenants on all borrowings except on one syndicated loan with an outstanding balance of MNT 185 billion on which the Bank's management obtained the waiver letter on 19 February 2021, the default is resulting from the non-compliance Junior MIK ratio from the syndicated loan agreements, consequently the liability on this has been classified under the less than one year category. The lender has not requested accelerated payment.

Borrowed funds from financial institution and others	2020 MNT'000	2019 MNT'000
Maturity less than 12 month	387,874,950	328,995,982
More than 12 months	448,442,572	566,991,402
Total borrowed funds	**836,317,522**	**895,987,384**

22.4.1 Reconciliation of liabilities arising from financing activities

The table below details changes in the Bank's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank's statement of cash flows as cash flows from financing activities.

	2020 MNT'000	2019 MNT'000
Opening balance	**895,987,384**	**845,837,178**
Financing cash flow - Inflow	352,912,573	684,395,192
Financing cash flow - Outflow	(417,689,549)	(627,610,158)
Interest paid	(72,498,240)	(73,807,299)
Non cash*	(30,742,000)	(26,934,200)
Other changes**	69,289,311	71,473,344
Exchange difference	39,058,043	22,633,327
Closing balance	**836,317,522**	**895,987,384**

* Non cash comprises the transfer of Senior RMBS to BOM as set out in note 13.3.
** Other changes include the movement of interest accrued.

22. FINANCIAL LIABILITIES AT AMORTISED COST (Contd.)

22.5 SUBORDINATED LOANS

	2020 MNT'000	2019 MNT'000
IFC Capitalization Fund, L.P	-	54,415,887
	-	**54,415,887**

In June 2012, the Bank entered into a Subordinated Loan Agreement in the amount of USD 40,000,000 with IFC Capitalization Fund. The Bank obtained the loan in 2 tranches: USD 9,000,000 in December 2012 at a fixed rate of 8.955% per annum, USD 31,000,000 in 2014 at a variable interest rate of 6-month LIBOR USD plus a margin of 7.40%. In December 2019, the Bank repaid USD 20,000,000 of the funds and as at 31 December 2020 the debt has been fully repaid after the repayment of remaining USD 20,000,000.

22.5.1 Reconciliation of liabilities arising from financing activities

The table below details changes in the Bank's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank's statement of cash flows as cash flows from financing activities.

	2020 MNT'000	2019 MNT'000
Opening balance	**54,415,887**	**107,333,707**
Financing cash flow – Outflow	(56,985,800)	(54,522,400)
Interest paid	-	(12,659,456)
Non cash*	(5,204,590)	
Other changes**	5,459,103	10,765,350
Exchange difference	2,315,400	3,498,686
Closing balance	**-**	**54,415,887**

* Non cash comprises the accrued amount of prepaid interest payment.
** Other changes include the movement of interest accrued.

23. DEFERRED GRANTS

	2020 MNT'000	2019 MNT'000
Micro Energy Credit Corporation ("MEC")	3,412,724	2,933,678
GCF Proceeds EECLP	2,803,950	2,768,228
Green Climate Fund Grant on MSME program	862,228	958,750
GCF Grant on Mini-grid PPF	916,269	585,036
Green Climate Fund Proceeds	775,673	802,129
GCF Grant on NDA RS-2	712,321	-
GCF Grant on ESIMD-RS	712,320	-
GCF Grant on MGFC-PPF	123,481	-
Total deferred grants	**10,318,966**	**8,047,821**

Movements in deferred grants are presented as follows:

	2020 MNT'000	2019 MNT'000
Balance at beginning of the year	8,047,821	4,858,878
Received during the year	3,445,874	5,506,214
Other income	-	(252,502)
Amortisation for the year	(1,174,729)	(2,064,769)
Balance at end of the year	10,318,966	8,047,821

24. LEASE LIABILITIES

	2020 MNT'000	2019 MNT'000
less than 12 month	1,645,721	3,634,615
1 to 2 years	706,137	1,128,491
2 to 3 years	484,012	104,340
3 to 4 years	204,376	-
4 to 5 years	136,345	-
	3,176,591	4,867,446

25. OTHER LIABILITIES

	2020 MNT'000	2019 MNT'000
Other financial liabilities		
Syndicated loan funding	43,417,095	44,173,594
Clearing settlement	10,384,682	14,279,839
Other financial liabilities	15,906,405	19,059,335
Impairment allowance on off balance exposures	490,254	232,672
	70,198,436	77,745,440
Other non-financial liabilities		
Accrued salary costs and bonuses	6,617,250	3,059,139
Taxes payable other than on income tax	307,313	791,356
Other non-financial liabilities	3,987,724	3,691,466
	10,912,287	7,541,961
Total other liabilities	81,110,723	85,287,401

Impairment allowance on off balance exposures

	2020 MNT'000	2019 MNT'000
At beginning of the year	232,672	355,478
Charge/(reversal) for the year (Note 9)	257,582	(122,806)
At end of the year	490,254	232,672

26. ORDINARY SHARES

	Number of Ordinary Shares of MNT 2,719.06 each		Amount	
	2020	2019	2020 MNT'000	2019 MNT'000
At 1 January and 31 December	20,353,656	20,353,656	55,342,753	55,342,753

As at 31 December 2020 the Bank has 20,353,656 issued shares (2019: 20,353,656) at a par value of MNT 2,719.06 (2019: MNT 2,719.06).

The Bank has one class of shares and each share carries one voting right. The dividend proposed by the board of directors is subject to approval by the shareholder in the annual general meeting, except in the case of an interim dividend. In the event of liquidation, the equity shareholder is eligible to receive the remaining assets of the Bank after distribution of all preferential amounts.

27. OTHER RESERVES

There is no movement in other reserves during the year. At the date of this report, no policy is formalised by the Bank as to the purpose of these reserves.

28. REGULATORY RESERVE

As of 31 December 2020, the regulatory reserve was MNT 27,893 million which consists of loan loss reserve of MNT 18,740 million (31 December 2019: MNT 16,513 million) and repossessed asset impairment reserve of MNT 9,153 million (31 December 2019: Nil). As at 31 December 2019, impairment provision for repossessed assets provided in accordance with BOM was as same as IFRS.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

Recurring fair value measurement at 31 December 2020	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets at FVTPL				
Derivative financial instruments				
Foreign currency swap contracts	-	12,931,412	-	12,931,412
Interest rate swap	-	56,036,979	-	56,036,979
Senior RMBS	-	-	4,066,916	4,066,916
Junior RMBS	-	-	37,248,810	37,248,810
Closed ended investment fund	-	-	1,040,718	1,040,718
	-	**68,968,391**	**42,356,444**	**111,324,835**
Financial investments at FVTOCI				
Unquoted equities	-	-	460,876	460,876
Quoted equities	3,148,784	-	-	3,148,784
Loans and advances to customers	-	-	63,181,771	63,181,771
	3,148,784	**-**	**63,642,647**	**66,791,431**
Financial liabilities at FVTPL				
Derivative financial instruments				
Interest rate swap	-	728,578	-	728,578
	-	**728,578**	**-**	**728,578**

Recurring fair value measurement at 31 December 2019	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets at FVTPL				
Derivative financial instruments				
Foreign currency swap contracts	-	41,436,888	-	41,436,888
Interest rate swap	-	48,440,093	-	48,440,093
Junior RMBS	-	-	33,850,997	33,850,997
Closed ended investment fund	-	-	1,065,472	1,065,472
	-	**89,876,981**	**34,916,469**	**124,793,450**
Financial investments at FVTOCI				
Unquoted equities	-	-	224,439	224,439
Quoted equities	3,159,315	-	-	3,159,315
Loans and advances to customers	-	-	68,782,951	68,782,951
	3,159,315	**-**	**69,007,390**	**72,166,705**
Financial liabilities at FVTPL				
Derivative financial instruments				
Interest rate swap	-	5,227,460	-	5,227,460
	-	**5,227,460**	**-**	**5,227,460**

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd.)

Transfers between level 1 and 2

There were no transfers between level 1 to level 2 of the fair value hierarchy for the financial assets and liabilities which are recorded at fair value.

The following table summarises information about how the fair values of financial assets and financial liabilities (both recurring and non-recurring) which are categorised as Level 2 and Level 3 are determined:

Financial assets/ financial liabilities	Fair value as at 31/12/2020 MNT'000	Fair value as at 31/12/2019 MNT'000	Fair value hierarchy	Valuation technique(s)	key input(s)
1) Derivative financial instruments	12,931,412	41,436,888	Level 2	Market value, Interest rate parity	Repo rate, government bonds yield and spot exchange rate
2) Interest rate swap	55,308,401	43,212,633	Level 2	Market value	Libor rate, policy rate and spot exchange rate
2) Senior and Junior RMBS	41,315,726	33,850,997	Level 3	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments
3) Unquoted equities	460,876	224,439	Level 3	Net assets value	Market share price, transaction price
4) Closed ended investment fund	1,040,718	1,065,472	Level 3	Net assets value	Market price of proxy real estate properties
5) Loans and advances to customers	63,181,771	68,782,951	Level 3	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments

Financial assets and liabilities are categorised under level 2 where the Bank determined the fair value based on valuation technique (eg. discounted cash flow model) using market observable inputs.

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.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd.)

Movements in fair value measurements within Level 3 are as follows:

	Note	2020 MNT'000	2019 MNT'000
Loans and advances to customers, at FVTOCI			
At beginning of the year		68,782,951	52,705,192
Addition		41,913,442	43,074,576
Principal paid		(9,234,152)	(6,062,378)
Disposal		(38,562,315)	(20,567,812)
Interest accrued		2,920,881	4,456,835
Interest received		(2,839,568)	(4,306,411)
Other movements		200,532	(517,051)
At end of the year		**63,181,771**	**68,782,951**
Senior RMBS, at fair value			
At beginning of the year		-	8,451,006
Addition		34,688,400	18,488,400
Sold		(30,829,600)	(26,934,200)
Interest accrued	6	365,432	38,787
Interest received		(83,259)	(45,736)
Change in fair value	6	(74,057)	1,743
At end of the year		**4,066,916**	**-**
Junior RMBS, at fair value			
At beginning of the year		33,850,997	31,243,384
Addition		3,854,700	2,054,300
Interest accrued	7	3,797,026	3,358,073
Interest received		(3,736,723)	(3,306,862)
Change in fair value	7	(517,190)	502,102
At end of the year		**37,248,810**	**33,850,997**
Closed ended investment fund, at fair value			
At beginning of the year		1,065,472	3,122,404
Disposal			(1,882,880)
Change in fair value	7	(24,754)	(174,052)
At end of the year		**1,040,718**	**1,065,472**
Unquoted investments, at fair value			
At beginning of the year		224,439	225,601
Change in fair value		236,437	(1,162)
At end of the year		**460,876**	**224,439**

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd.)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31 December 2020	Note	Carrying amount MNT'000	Fair value MNT'000
Financial assets			
Cash and balances with BOM	13.1	179,504,448	179,504,448
Mandatory cash balances with BOM	13.2	186,372,668	186,372,668
Due from banks	16.1	76,561,599	76,561,599
Debt securities	16.2	1,207,367,188	1,207,367,188
Loans and advances to customers	16.3	1,272,781,827	1,274,276,208
Other assets	17	7,695,549	7,695,549
		2,930,283,279	2,931,777,660
Financial liabilities			
Due to banks	22.2	1,938,909	1,938,909
Due to customers	22.3	2,025,652,948	2,025,652,948
Borrowed funds	22.4	836,317,522	836,317,522
Lease liabilities	24	3,176,591	3,176,591
Other liabilities	25	70,198,436	70,198,436
		2,937,284,406	2,937,284,406

As at 31 December 2019	Note	Carrying amount MNT'000	Fair value MNT'000
Financial assets			
Cash and balances with BOM	13.1	571,202,252	571,202,252
Mandatory cash balances with BOM	13.2	213,044,263	213,044,263
Due from banks	16.1	122,223,590	122,223,590
Debt securities	16.2	467,741,147	467,741,147
Loans and advances to customers	16.3	1,725,784,584	1,703,294,958
Other assets	17	14,942,813	14,942,813
		3,114,938,649	3,092,449,023
Financial liabilities			
Due to banks	22.2	12,229,311	12,229,311
Repurchase agreements	22.1	297,898,939	297,898,939
Due to customers	22.3	1,843,180,057	1,843,180,057
Borrowed funds	22.4	895,987,384	897,294,096
Subordinated loans	22.5	54,415,887	54,415,887
Lease liabilities	24	4,867,446	4,867,446
Other liabilities	25	77,745,440	77,745,440
		3,186,324,464	3,187,631,176

30. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2020 MNT'000	2019 MNT'000
Contingent liabilities		
Performance and tender guarantees	37,928,105	40,284,802
Financial guarantees	12,583,996	23,219,130
Letters of credit	18,466,998	7,505,915
	68,979,099	71,009,847
Commitments		
Undrawn commitments to lend	86,561,836	51,088,592
Total	**155,540,935**	**122,098,439**

Contingent liabilities

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same risk as loans even though they are of a contingent nature. No material losses are anticipated as a result of these transactions.

Analysis of Contingent liabilities and ECL loss allowance is given below:

As at 31 December 2020	**Stage 1 12-month MNT'000**	**Stage 2 Lifetime MNT'000**	**Stage 3 Lifetime MNT'000**	**Total MNT'000**
As at 31 December 2019	70,778,200	231,647	-	71,009,847
New guarantees and letters of credit granted	49,173,298	-	-	49,173,298
Expiry of guarantees and letters of credit	(51,122,399)	(81,647)	-	(51,204,046)
Changes in gross carrying amount - Transfer from stage 2 to stage 1 and stage 3	150,000	(150,000)	-	-
Gross carrying amount as at 31 December 2020	**68,979,099**	**-**	**-**	**68,979,099**
Loss allowance				
As at 31 December 2019	99,194	1,080	-	100,274
Charge for the period	98,814	-	-	98,814
Reversal for the period	(51,477)	(701)	-	(52,178)
Changes in gross carrying amount - Transfer from stage 2 to stage 1 and stage 3	379	(379)	-	-
Gross carrying amount as at 31 December 2020	**146,910**	**-**	**-**	**146,910**

30. CONTINGENT LIABILITIES AND COMMITMENTS (Contd.)

Analysis of Contingent liabilities and ECL loss allowance is given below:

As at 31 December 2019	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2018	94,348,914	-	-	94,348,914
New guarantees and letters of credit granted	42,511,657	-	-	42,511,657
Expiry of guarantees and letters of credit	(65,850,724)	-	-	(65,850,724)
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(231,647)	231,647	-	-
Gross carrying amount as at 31 December 2019	**70,778,200**	**231,647**	**-**	**71,009,847**
Loss allowance				
As at 31 December 2018	98,733	-	-	98,733
Charge for the period	51,854	-	-	51,854
Reversal for the period	(50,313)	-	-	(50,313)
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(1,080)	1,080	-	-
Gross carrying amount as at 31 December 2019	**99,194**	**1,080**	**-**	**100,274**

Undrawn commitments to lend

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.

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.

Analysis of the Undrawn commitments and ECL loss allowance is given below:

As at 31 December 2020	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2019	51,041,820	45,516	1,256	51,088,592
New facilities granted	19,560,787	2	284	19,561,073
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(78,044)	56,065	21,979	-
- Transfer from stage 2 to stage 1 and stage 3	5,548	(6,093)	545	-
- Transfer from stage 3 to stage 1 and stage 2	2,891	-	(2,891)	-
Utilisation or expiry of facilities	15,949,954	(39,423)	1,640	15,912,171
Gross carrying amount as at 31 December 2020	86,482,956	56,067	22,813	86,561,836

30. CONTINGENT LIABILITIES AND COMMITMENTS (Contd.)

Analysis of the Undrawn commitments and ECL loss allowance is given below (Contd):

As at 31 December 2020	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
Loss allowance				
As at 31 December 2019	131,448	527	423	132,398
New facilities granted	82,113	-	91	82,204
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(7,330)	259	7,071	-
- Transfer from stage 2 to stage 1 and stage 3	4	(180)	176	-
Transfer from stage 3 to stage 1 and stage 2	4	-	(4)	-
Utilisation or expiry of facilities	129,507	(347)	(418)	128,742
Gross carrying amount as at 31 December 2020	**335,746**	**259**	**7,339**	**343,344**

As at 31 December 2019	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2018	92,988,890	3,375,961	8	96,364,859
New facilities granted	15,543,395	275	-	15,543,670
Changes in gross carrying amount				-
- Transfer from stage 1 to stage 2 and stage 3	(882)	187	695	-
- Transfer from stage 2 to stage 1 and stage 3	2,690,201	(2,690,762)	561	-
Utilisation or expiry of facilities	(60,179,784)	(640,145)	(8)	(60,819,937)
Gross carrying amount as at 31 December 2019	**51,041,820**	**45,516**	**1,256**	**51,088,592**
Loss allowance				
As at 31 December 2018	229,697	27,046	2	256,745
New facilities granted	48,793	1	-	48,794
Changes in gross carrying amount				-
- Transfer from stage 1 to stage 2 and stage 3	(234)	-	234	-
- Transfer from stage 2 to stage 1 and stage 3	4,616	(4,805)	189	-
Utilisation or expiry of facilities	(151,424)	(21,715)	(2)	(173,141)
Gross carrying amount as at 31 December 2019	**131,448**	**527**	**423**	**132,398**

30. CONTINGENT LIABILITIES AND COMMITMENTS (Contd.)

Other commitments

	2020 MNT'000	2019 MNT'000
Approved and contracted for:		
Intangible assets	5,762,202	2,128,921
Property and equipment	756,583	300,074
	6,518,785	**2,428,995**

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. 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 position.

31. 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 33.3 Liquidity risk and funding management for the Bank's contractual undiscounted repayment obligations.

At 31 December 2020	Less than 12 months 2020 MNT'000	More than 12 months 2020 MNT'000	Total 2020 MNT'000
Financial assets			
Cash and balances with BOM	179,504,448	-	179,504,448
Mandatory cash balances with BOM	-	186,372,668	186,372,668
Financial instruments at FVTPL			
Derivative financial instruments	22,281,949	46,686,442	68,968,391
Securities	-	42,356,444	42,356,444
Financial assets at FVTOCI			
Equity securities	-	3,609,660	3,609,660
Loans and advances to customers	1,839,804	61,341,967	63,181,771
Financial assets at amortised cost			
Due from banks	76,561,599	-	76,561,599
Debt securities	1,207,367,188	-	1,207,367,188
Loans and advances to customers	598,897,532	673,884,295	1,272,781,827
Other assets	6,762,567	932,982	7,695,549
	2,093,215,087	1,015,184,458	3,108,399,545
Non financial assets			
Other assets	32,342,710	94,439	32,437,149
Properties held for sale	2,607,895	-	2,607,895
Property and equipment	-	62,400,674	62,400,674
Intangible assets	1,553,087	13,080,846	14,633,933
Investment property	-	21,260,252	21,260,252
Deferred tax asset	-	1,951,859	1,951,859
	36,503,692	98,788,070	135,291,762
Total	2,129,718,779	1,113,972,528	3,243,691,307
Financial liabilities			
Financial instruments at FVTPL			
Derivative financial instruments	728,578	-	728,578
Financial liabilities at amortised cost			
Due to banks	1,938,909	-	1,938,909
Due to customers	1,508,438,303	517,214,645	2,025,652,948
Borrowed funds	387,874,950	448,442,572	836,317,522
Lease liabilities	1,645,721	1,530,870	3,176,591
Other liabilities	11,822,697	58,375,739	70,198,436
	1,912,449,158	1,025,563,826	2,938,012,984
Non financial liabilities			
Deferred grants	10,318,966	-	10,318,966
Other liabilities	8,618,587	2,293,700	10,912,287
Income tax payable	7,809,768	-	7,809,768
	26,747,321	2,293,700	29,041,021
Total	1,939,196,479	1,027,857,526	2,967,054,005
Net position	190,522,300	86,115,002	276,637,302

31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd.)

At 31 December 2019	Less than 12 months 2019 MNT'000	More than 12 months 2019 MNT'000	Total 2019 MNT'000
Financial assets			
Cash and balances with BOM	571,202,252	-	571,202,252
Mandatory cash balances with BOM	-	213,044,263	213,044,263
Financial instruments at FVTPL			
Derivative financial instruments	74,581,481	15,295,500	89,876,981
Securities	-	34,916,469	34,916,469
Financial assets at FVTOCI			
Equity securities	-	3,383,754	3,383,754
Loans and advances to customers	2,630,387	66,152,564	68,782,951
Financial assets at amortised cost			
Due from banks	122,223,590	-	122,223,590
Debt securities	467,367,215	373,932	467,741,147
Loans and advances to customers	781,064,904	944,719,680	1,725,784,584
Other assets	14,039,466	903,347	14,942,813
	2,033,109,295	**1,278,789,509**	**3,311,898,804**
Non financial assets			
Other assets	24,286,914	94,439	24,381,353
Properties held for sale	3,418,378	-	3,418,378
Property and equipment	-	67,413,003	67,413,003
Intangible assets	1,553,087	10,511,491	12,064,578
Investment property	-	31,919,060	31,919,060
Deferred tax asset	-	1,879,822	1,879,822
	29,258,379	**111,817,815**	**141,076,194**
Total	**2,062,367,674**	**1,390,607,324**	**3,452,974,998**
Financial liabilities			
Financial instruments at FVTPL			
Derivative financial instruments	5,227,460	-	5,227,460
Financial liabilities at amortised cost			
Repurchase agreements	297,898,939	-	297,898,939
Due to banks	12,229,311	-	12,229,311
Due to customers	1,445,896,946	397,283,111	1,843,180,057
Borrowed funds	328,995,982	566,991,402	895,987,384
Subordinated loans	54,415,887	-	54,415,887
Lease liabilities	3,634,615	1,232,831	4,867,446
Other liabilities	26,647,138	51,098,302	77,745,440
	2,174,946,278	**1,016,605,646**	**3,191,551,924**
Non financial liabilities			
Deferred grants	8,047,821	-	8,047,821
Other liabilities	5,248,261	2,293,700	7,541,961
	13,296,082	**2,293,700**	**15,589,782**
Total	**2,188,242,360**	**1,018,899,346**	**3,207,141,706**
Net position	**(125,874,686)**	**371,707,978**	**245,833,292**

32. RELATED PARTY DISCLOSURES

The Bank is controlled by TenGer Financial Group LLC. TenGer Financial Group LLC is owned by the shareholders detailed in Note 1 (Corporate Information).

A number of banking transactions are entered into with related parties in 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.

As at 31 December 2020 and 2019, the Bank had the following balances and transactions with related parties.

	2020 MNT'000	2019 MNT'000
a) Loans and advances to related companies:		
Fellow subsidiaries	3,699	2,010,031
	3,699	**2,010,031**
Members of the Board of Directors and key management personnel of the Bank	1,081,690	1,192,198
	1,085,389	**3,202,229**

The loans and advances to related parties are secured, bear interest rates from 8.0% to 20.4% (2019: 8.0% to 20.4%) per annum and are repayable within one to 20 years. The interest income received from such loans during the financial year amounted to MNT 184.3 million (2019: MNT 1,286.0 million).

	2020 MNT'000	2019 MNT'000
b) Deposits from related companies:		
Holding company	10,433,078	792,581
Fellow subsidiaries	1,390,972	861,138
Shareholders of holding company	1,524	23,013
	11,825,574	**1,676,732**
Members of the Board of Directors and key management personnel of the Bank	4,058,864	2,508,707
	15,884,438	**4,185,439**

The deposits from the above related parties bear interest rates from 0% to 12.6% (2019: 0% to 13.6%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT 525.0 million (2019: MNT 354.2 million).

	2020 MNT'000	2019 MNT'000
c) Loans from shareholders of TenGer Financial Group LLC:		
International Finance Corporation (“IFC”)	42,314,141	47,276,118
IFC Capitalization Fund, L.P	-	51,828,754
Triodos Fair Share Fund	-	14,840,596
	42,314,141	**113,945,468**

The loans from the above shareholders of TenGer Financial Group LLC bear interest rates from 4.25% to 7.47% (2019: 5.30% to 9.50%) per annum. The interest expenses paid on such loans during the financial year amounted to MNT 8,830.5 million (2019: MNT 11,721.7 million).

32. RELATED PARTY DISCLOSURES (Contd.)

	2020 MNT'000	2019 MNT'000
d) Subordinated loan from shareholder of TenGer Financial Group LLC:		
IFC Capitalization Fund, L.P	-	54,415,887
	-	**54,415,887**

The subordinated loan from the above shareholder of TenGer Financial Group LLC bears interest rates of 8.96% to 9.38% (2018: 8.96% to 9.38%) per annum. The interest expenses paid on such subordinated loan during the financial year amounted to MNT 5,204.6 million (2019: MNT 10,228.1 million).

	2020 MNT'000	2019 MNT'000
e) Derivative financial instruments from related companies:		
Derivative financial instruments - liabilities		
Fellow subsidiaries	728,578	5,227,461
	728,578	**5,227,461**
f) Repurchase agreements		
Fellow subsidiary	-	1,302,422
		1,302,422
g) Guarantees issued to related companies:		
Holding company	40,135	-
	40,135	**-**
h) Security fees paid to related company:		
Fellow subsidiary	-	289,458
	-	**289,458**
i) Commission income from related companies:		
Holding company	67	136,136
Fellow subsidiaries	5,577	5,968
Shareholders of holding company	2,231	220
	7,875	**142,324**
Members of the Board of Directors and key management personnel of the Bank	44,284	908
	52,159	**143,232**
j) Contract fee paid to related companies:		
Fellow subsidiaries	199,310	471,283
	199,310	**471,283**

32. RELATED PARTY DISCLOSURES (Contd.)

	2020 MNT'000	2019 MNT'000
k) Rental income from related companies:		
Fellow subsidiaries	20,112	20,733
	20,112	**20,733**
l) Insurance brokerage income from related companies:		
Fellow subsidiaries	128,882	492,513
	128,882	**492,513**
m) Claims income from related companies:		
Fellow subsidiaries	5,312	5,039
	5,312	**5,039**
n) Income and expense on derivative financial instruments:		
Fellow subsidiaries		
Unrealized loss	4,498,882	(1,045,626)
Realized loss	(8,544,533)	(2,156,075)
Interest income	4,565,237	4,368,945
	519,586	**1,167,244**
o) Interest expense on repurchase agreements:		
Fellow subsidiaries	41,657	2,422
	41,657	**2,422**
p) Loss from disposal of other securities FVTPL:		
Fellow subsidiaries	-	(287,248)
	-	**(287,248)**
q) Compensation of key management personnel:		
Short-term employee benefits	12,261	70,282
Salaries and bonuses	6,273,682	4,423,630
Contribution to social and health fund	565,860	545,936
	6,851,803	**5,039,848**

Terms and conditions of transactions with related parties

The above mentioned transactions and outstanding balances arose in the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances except for loans and advances to related parties at the year-end are unsecured. The loans and advances are secured by future lease receivable and other current assets. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2020 and 2019, The Bank has made impairment allowance in the amount of MNT 6.2 million relating to amounts owed by related parties.

33. RISK MANAGEMENT

33.1 INTRODUCTION

Risk Management Approach

The primary function of the Bank's risk management is to advance the Bank's risk and control framework and to establish the risk function as a business enabler while simultaneously fostering three lines of defense. Each line of defense describes a specific set of responsibilities for risk management and controls, as follows:

- **The First Line of Defense** owns and manages risk. It has ownership of and responsibility and accountability for directly assessing, controlling, and mitigating risk within its sight of control;

- **The Second Line of Defense** oversees risk. It sets the risk management framework, policies and procedures, challenges risk limits and sets risk appetite, and monitors risk exposure. As such, the Second Line of Defense monitors the design and operation of the First Line of Defense's controls, as well as provides advice and guidance on an ongoing basis; and

- **The Third Line of Defense** provides independent assurance. The independent audit function will provide the Board with assurance of the risk-based approach, covering how effectively the Bank assess and manages its risk profile and assessing the effectiveness of the first and second lines of defense.

Risk Governance and Committees

The ultimate responsibility for setting the Bank's risk appetite and effectively managing risks rests with the Board of Directors. The Board of Directors delegated its responsibility to the Board Risk Management Committee.

The key governance committees are:

- **The Board Risk Management Committee** provides ultimate oversight and independent on risk matters on behalf of the Board of Directors. Its responsibilities include approving the Bank's Risk Management Framework, reviewing the appropriateness and effectiveness of the Bank's risk management approach and risk controlling, including the approval of material credit exposure and ratification of write-off decisions;

- **The Bank Risk Management Committee** is the management level oversight committee to review, challenge and oversee the risk function, the implementation of the Risk Management Framework and the adherence to the approved risk appetite.

- **The Credit Management Committee** focuses on selected cases, which are either of significant risk or exposure, or cannot be resolved through the delegated authorities between the First and Second Line of Defense; and

- **The Operational Risk Committee** provides oversight over the Bank's control driven Operational Risk Framework and the Operational Risk Acceptance.

33. RISK MANAGEMENT (Contd.)

33.1 INTRODUCTION (Contd.)

Risk Universe

The Bank assumes risk commensurate with its risk appetite. The Bank's risk universe defines those risk types the Bank is likely to face:

- **Credit Risk**, potential for loss due to failure of a counterparty to meet its obligation to pay the Bank in accordance with agreed terms;
- **Credit Concentration Risk**, potential for loss due to excessive credit exposure concentrations;
- **Market Risk**, potential for loss of earnings or economic value due to adverse changes in financial markets and/or prices;
- **Capital Risk**, potential inability to conduct business due to limited capitalization or short-fall against regulatory capitalization requirements, without incurring acceptable losses;
- **Liquidity Risk**, potential inability to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses;
- **Operational Risk (including fraud)**, potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks;
- **Information Security Risk**, potential for harm or loss resulting from breaches of or attacks on information systems or loss of information;
- **Conduct Risk**, potential for loss resulting from delivery of unfair customer outcomes and/or breaches of the Bank's code of conduct;
- **Compliance Risk**, potential for loss resulting for failed compliance;
- **Reputational Risk**, potential for damage to the Bank's brand and reputation, resulting in loss of earnings; and
- **Strategic Risk**, potential for opportunity loss from failure to optimize the earnings potential of the Bank's business model.

Risk Appetite, Stress Testing and Risk Reporting

The Bank's Risk Appetite is reflected through the Bank's risk appetite statement, which complements the Bank's business plan. The Bank differentiates:

- **Risk Appetite**, which defines the amount of risk the Bank is willing to take in pursuit of the Bank's business model;
- **Risk and Exposure Limits**, which implement the Bank's Risk Appetite, for example through credit exposure limits or credit concentration limits;

33. RISK MANAGEMENT (Contd.)

33.1 INTRODUCTION (Contd.)

Risk Appetite, Stress Testing and Risk Reporting (Contd.)

- **Risk Capacity**, which defines the amount of risk the Bank is able to take within its regulatory constraints; and

- **Stress Performance**, which defines the acceptable financial performance under predefined levels of stress.

The Bank's Risk Function periodically monitors the compliance against its risk appetite. Bespoke scenarios are applied to assess the Bank's financial performance under a mild and severe recession scenario. The Bank reviews alternative scenarios to assess the resilience of its business model. The alternative scenarios are complemented through a comprehensive contingent risk analysis.

33.2 CREDIT RISK

The Bank's credit risk policy defines the framework for managing the Bank's credit risk. It describes the principles and basic practices to prudently manage credit risk in accordance with the approved credit risk appetite and in accordance with risk capacity and respective laws and applicable regulations of Mongolia.

Under the Bank's credit risk management framework, the business has ownership of and accountability for selecting customers, suggesting appropriate loan products including terms and conditions, assessing customer's ability to service debt, valuing collaterals, collecting, monitoring and reviewing the loans, detecting early warning signals, and taking appropriate measurements.

While the risk function sets credit related policies and procedures, challenges credit risk limits and sets credit risk appetite, and monitors credit risk exposures. It performs the ongoing monitoring of the design and operation of controls, as well as providing advice and guidance.

In accordance with the IFRS 9 standards, the Bank's credit risk disclosures reflect the expected credit loss (ECL) of the financial assets, measured on a collective and individual basis for financial assets.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on financial assets that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated semi-annually with each portfolio receiving a separate review by the management.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of impairment in an individual assessment. ECL are estimated by taking into consideration of the probability of default (PD) and loss given defaults (LGD), as per each loan stage, adjusted by the probability weighted macroeconomic scenarios.

The Bank assumes probability weights for the next 12 months, considering the current economic condition and growth outlooks. Given the high correlation between the GDP growth and the probability of defaults, weighted PD/LGDs reflect the forward-looking macroeconomic situation.

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

The Bank's definitions for loan stages are as follows:

Stage 1: Good Credit Quality Exposure is determined as "Normal" in Bank of Mongolia's assessment and loans that are overdue until 30 days past due. For these loans, 12-month ECL are recognized;

Stage 2: Deteriorating Credit Quality Exposure is determined as loans that are overdue from 31 days to 90 days, restructured loans and internally assessed "watch-listed" performing loans. For these assets, lifetime ECL are recognized; and

Stage 3: Low Credit Quality Exposure, identified as "Non-performing" in Bank of Mongolia's regulation, including substandard, doubtful and bad loans. For these assets, lifetime ECL are recognized.

The impairment allowance is then reviewed by Chief Risk Officer and Chief Financial Officer to ensure compliance with the Bank's overall policy.

The tables below analyze the movement of the loss allowance during the year per class of assets.

Due from banks at amortised cost

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2020				
As at 1 January 2020	122,223,590	-	-	122,223,590
New financial assets originated or purchased	58,751,509	-	-	58,751,509
Financial assets that have been derecognised	(104,180,078)	-	-	(104,180,078)
Gross carrying amount as at 31 December 2019	**76,795,021**	**-**	**-**	**76,795,021**
Loss allowance				
As at 1 January 2020	-	-	-	-
Charge for the year	754,855	-	-	754,855
Reversal for the year	(521,433)	-	-	(521,433)
Gross carrying amount as at 31 December 2020	**233,422**	**-**	**-**	**233,422**
As at 31 December 2019				
As at 1 January 2019	169,019,735	-	-	169,019,735
New financial assets originated or purchased	92,462,333	-	-	92,462,333
Financial assets that have been derecognised	(139,258,478)	-	-	(139,258,478)
Gross carrying amount as at 31 December 2019	**122,223,590**	**-**	**-**	**122,223,590**

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

Loans and advances to customers at amortised cost and at FVTOCI subject to impairment

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2020				
As at 1 January 2020	1,685,470,612	79,648,854	87,961,478	1,853,080,944
New financial assets originated or purchased	681,844,857	30,101,729	6,552,537	718,499,123
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(41,481,952)	19,913,157	21,568,795	-
- Transfer from stage 2 to stage 1 and stage 3	956,345	(11,492,620)	10,536,275	-
- Transfer from stage 3 to stage 1 and stage 2	269,177	369,603	(638,780)	-
Financial assets that have been derecognised	(1,109,956,233)	(30,173,586)	(21,065,192)	(1,161,195,011)
Written-off	(21,212)	(11,852)	(1,341,184)	(1,374,248)
Changes due to change in FV	2,022,484	64,685	56,776	2,143,945
Changes due to modifications that did not result in derecognition	(2,022,484)	(64,685)	(56,776)	(2,143,945)
Gross carrying amount as at 31 December 2020	**1,217,081,594**	**88,355,285**	**103,573,929**	**1,409,010,808**
Loss allowance				
As at 1 January 2020	12,816,509	1,715,271	43,981,629	58,513,409
Charge for the year	14,519,367	13,301,297	4,168,675	31,989,339
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(9,050,639)	1,226,249	7,824,390	-
- Transfer from stage 2 to stage 1 and stage 3	8,922	(4,864,589)	4,855,667	-
- Transfer from stage 3 to stage 1 and stage 2	1,968	12,280	(14,248)	-
Reversal for the year	(6,971,166)	(408,250)	(8,701,874)	(16,081,290)
Written-off	(21,212)	(11,852)	(1,341,184)	(1,374,248)
Gross carrying amount as at 31 December 2020	**11,303,749**	**10,970,406**	**50,773,055**	**73,047,210**

*The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Bank.

The Mongolian Government and the Bank of Mongolia have announced various measures to support and stimulate the economy and the banking sector in order to overcome the negative impact arising from the pandemic. The measures announced by the Government and BOM have included waived consumer and housing mortgage interest upto 13 months. In applying these requirements and in response to the requests from customers, the Bank has modified loans with a gross carrying value of MNT 387.2 billion as at 31 December 2020. Loan modifications are only available for those borrowers who are affected by the Covid-19. Actions which have led to loan modifications include deferring repayments of loan principal and interest for up to 6 months (some cases up to 12 months only) and waiving penalty interest on past due loans. The Bank is not required to designate as credit impaired loans for which a deferral has been granted due to Covid-19 purely on the basis of the application of the government measures.

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

Loans and advances to customers at amortised cost and at FVTOCI subject to impairment (Contd.)

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2019				
As at 1 January 2019	1,703,512,049	173,852,525	101,305,581	1,978,670,155
New financial assets originated or purchased	735,127,247	19,637,549	2,697,028	757,461,824
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(22,276,270)	11,091,046	11,185,224	-
- Transfer from stage 2 to stage 1 and stage 3	50,407,803	(73,531,917)	23,124,114	-
- Transfer from stage 3 to stage 1 and stage 2	733,093	628,524	(1,361,617)	-
Financial assets that have been derecognised	(781,932,825)	(51,994,701)	(23,679,585)	(857,607,111)
Written-off	(100,485)	(34,172)	(25,309,267)	(25,443,924)
Gross carrying amount as at 31 December 2019	**1,685,470,612**	**79,648,854**	**87,961,478**	**1,853,080,944**
Loss allowance				
As at 1 January 2019	9,957,739	3,248,953	51,929,114	65,135,806
Charge for the year	12,212,613	6,994,325	13,113,664	32,320,602
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(6,816,834)	222,158	6,594,676	-
- Transfer from stage 2 to stage 1 and stage 3	430,846	(7,496,574)	7,065,728	-
- Transfer from stage 3 to stage 1 and stage 2	7,931	23,966	(31,897)	-
Reversal for the year	(2,875,301)	(1,243,385)	(9,380,389)	(13,499,075)
Written-off	(100,485)	(34,172)	(25,309,267)	(25,443,924)
Gross carrying amount as at 31 December 2019	**12,816,509**	**1,715,271**	**43,981,629**	**58,513,409**

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

Debt investment securities at amortised cost

	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
As at 31 December 2020	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
As at 1 January 2020	467,766,539	-	-	467,766,539
New financial assets originated or purchased	1,207,367,188			1,207,367,188
Financial assets that have been derecognised	(467,766,539)			(467,766,539)
Gross carrying amount as at 31 December 2020	**1,207,367,188**	**-**	**-**	**1,207,367,188**
Loss allowance				
As at 1 January 2020	25,392	-	-	25,392
Charge for the year	-	-	-	-
Reversal for the year	(25,392)		-	(25,392)
Gross carrying amount as at 31 December 2020	**-**	**-**	**-**	**-**

	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
As at 31 December 2019	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
As at 1 January 2019	174,759,740	-	-	174,759,740
New financial assets originated or purchased	464,922,225			464,922,225
Financial assets that have been derecognised	(171,915,426)			(171,915,426)
Gross carrying amount as at 31 December 2019	**467,766,539**	**-**	**-**	**467,766,539**
Loss allowance				
As at 1 January 2019	43,446	-	-	43,446
Charge for the year	11,750	-	-	11,750
Reversal for the year	(29,804)		-	(29,804)
Gross carrying amount as at 31 December 2019	**25,392**	**-**	**-**	**25,392**

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

Maximum exposure to credit risk without taking account of any 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.

Gross by classes	2020 MNT'000	2019 MNT'000
Loans and advances to customers at amortised cost	1,344,904,013	1,783,207,200
Debt investment securities at amortised cost	1,207,367,188	467,766,539
Loans and advances to banks at amortised cost	403,388,480	854,687,126
Loan commitments	86,561,836	51,088,592
Financial guarantee contracts	68,979,099	71,009,847
Loans and advances to customers at FVTOCI	64,106,795	69,873,744
Other assets	8,168,969	15,155,442
Total	**3,183,476,380**	**3,312,788,490**

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 of the Bank's credit risk concentration per class of financial assets. The amounts in table represent gross carrying amount before taking into account the fair value of the loan collateral held or other credit enhancements.

Loans and advances to banks at amortised cost

Concentration by sector	2020 MNT'000	%	2019 MNT'000	%
Sovereign	326,593,459	81.0	732,463,536	85.7
Banking	76,561,599	19.0	122,223,590	14.3
Total	**403,155,058**	**100.00**	**854,687,126**	**100.0**

Loans and advances to customers at amortised cost and FVTOCI

Concentration by sector	2020 MNT'000	%	2019 MNT'000	%
Consumption	347,422,244	24.7	430,357,626	23.2
Trading	281,977,644	20.0	430,032,601	23.2
Mortgage	163,234,911	11.6	186,573,531	10.1
Other	164,793,050	11.7	65,121,481	3.5
Deposit backed	144,173,749	10.2	158,211,190	8.5
Production	138,595,359	9.8	226,225,164	12.2
Construction	67,943,013	4.8	105,763,718	5.7
Services	56,468,886	4.0	191,480,706	10.3
Agricultural	26,971,788	1.9	30,157,092	1.6
Mining	17,430,164	1.2	29,157,835	1.6
Total	**1,409,010,808**	**100**	**1,853,080,944**	**100.0**

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

Debt investment securities at amortised cost

Concentration by sector	2020 MNT'000	%	2019 MNT'000	%
Sovereign	1,207,367,188	100.0	467,766,539	100.0
Total	**1,207,367,188**	**100.0**	**467,766,539**	**100.0**

Loan commitments

Concentration by sector	2020 MNT'000	%	2019 MNT'000	%
Retail				
Unsecured loan	10,543,800	12.2	6,457,232	12.6
Micro business loan	15,241,588	17.6	6,619,849	13.0
Business loan	12,067,207	13.9	12,611,360	24.7
SME and Corporate				
Trading	16,089,598	18.6	12,940,037	25.3
Production	20,246,328	23.4	8,802,305	17.2
Services	1,500,000	1.7	1,246,049	2.5
Construction	2,843,909	3.3	2,409,139	4.7
Other	6,818,834	7.9	-	-
Mining	1,210,572	1.4	2,621	-
Total	**86,561,836**	**100**	**51,088,592**	**100.0**

Financial guarantees (un-funded)

Guarantees	2020 MNT'000	%	2019 MNT'000	%
Trading	21,751,789	31.5	20,008,414	28.2
Other	20,302,032	29.5	419,186	0.6
Construction	13,059,718	18.9	19,564,244	27.6
Production	9,403,448	13.6	5,701,242	8.0
Services	3,870,199	5.6	23,552,569	33.2
Mining	523,498	0.8	1,698,625	2.4
Agricultural	68,415	0.1	65,567	0.1
Total	**68,979,099**	**100.0**	**71,009,847**	**100.0**

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

Collateral and other credit enhancements

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's credit risk policy stipulates the eligible collaterals and loan acceptance to collateral value.

The main types of the Bank's eligible collaterals obtained are as follows:
(i) For immovable assets, the buildings, facilities, affordable houses and lands
(ii) For movable assets, the vehicles, equipment, cash, animals, inventory, future guaranteed funds and intangible assets.

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.

Collateral type:	2020 MNT'000	2019 MNT'000
Property	1,899,220,430	2,358,533,009
Cash deposits	271,940,701	303,617,400
Vehicles	161,913,083	208,475,450
Equipment	69,040,447	83,055,195
Goods in turnover	579,694,286	930,219,691
Other & Unsecured	454,223,946	740,201,406
Total	**3,436,032,893**	**4,624,102,151**

Credit quality per class of financial assets

The Bank uses the basic credit grading approach to categorize exposures according to the risk profiles, as follows:

Credit Grading	Moody's rating	Grade Description
A	Aaa to A3	Excellent
B	Baa1 to B3	Good
C	Caa1 to Caa3	Satisfactory
D	Ca	Monitoring
E	C, D	Impaired

This grading approach uses the risk parameters i.e. repayment pattern, collateral value and credit facility purpose to quantify the risk grade. It allows the management to compare the exposures across all lines of loans and advances to customers.

Apart from using this grading approach, the Bank applies the credit ratings assigned by the international rating agencies to the exposures for due from banks and financial investments.
The Bank does not rate the unquoted financial investments.

The table below shows that all financial assets exposed to credit risk in terms of credit grading. The amounts presented are gross of impairment allowances.

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

Credit quality per class of financial assets (Contd.)

Loans and advances to banks at amortised cost

	2020				2019			
Grade	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**
Excellent	12,647,800	-	-	**12,647,800**	10,880,017	-	-	**10,880,017**
Good	64,147,221	-	-	**64,147,221**	111,343,573	-	-	**111,343,573**
Satisfactory	-	-	-	**-**	-	-	-	**-**
Monitoring	-	-	-	**-**	-	-	-	**-**
Impaired	-	-	-	**-**	-	-	-	**-**
Total gross	76,795,021	-	-	**76,795,021**	122,223,590	-	-	**122,223,590**
Loss allowance	(233,422)	-	-	**(233,422)**	-	-	-	**-**
Carrying value	**76,561,599**	**-**	**-**	76,561,599	**122,223,590**	**-**	**-**	122,223,590

Loans and advances to customers at amortised cost and FVTOCI

	2020				2019			
Grade	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**
Excellent	390,683,072	-	-	**390,683,072**	380,780,858	-	-	**380,780,858**
Good	139,222,972	-	-	**139,222,972**	255,636,556	-	-	**255,636,556**
Satisfactory	681,486,152	-	-	**681,486,152**	1,005,043,290	-	-	**1,005,043,290**
Monitoring	5,689,398	88,355,285	-	**94,044,683**	44,009,908	79,648,854	-	**123,658,762**
Impaired	-	-	103,573,929	**103,573,929**	-	-	87,961,478	**87,961,478**
Total gross	1,217,081,594	88,355,285	103,573,929	**1,409,010,808**	1,685,470,612	79,648,854	87,961,478	**1,853,080,944**
Loss allowance	(11,303,749)	(10,970,406)	(50,773,055)	**(73,047,210)**	(12,816,509)	(1,715,271)	(43,981,629)	**(58,513,409)**
Carrying value	**1,205,777,845**	**77,384,879**	**52,800,874**	**1,335,963,598**	**1,672,654,103**	**77,933,583**	**43,979,849**	**1,794,567,535**

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

Credit quality per class of financial assets (Contd.)

Debt investment securities at amortised cost

	2020				2019			
Grade	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**
Excellent	-	-	-	**-**	-	-	-	**-**
Good	1,207,367,188	-	-	**1,207,367,188**	467,766,539	-	-	**467,766,539**
Satisfactory	-	-	-	-	-	-	-	**-**
Monitoring	-	-	-	-	-	-	-	**-**
Impaired	-	-	-	-	-	-	-	**-**
Total gross	1,207,367,188	-	-	**1,207,367,188**	467,766,539	-	-	**467,766,539**
Loss allowance	-	-	-	**-**	(25,392)	-	-	**(25,392)**
Carrying value	**1,207,367,188**	**-**	**-**	**1,207,367,188**	**467,741,147**	**-**	**-**	**467,741,147**

Loan Commitment

	2020				2019			
Grade	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**
Excellent	4,223,776	-	-	**4,223,776**	9,722,811	-	-	**9,722,811**
Good	690,945	-	-	**690,945**	9,870,168	-	-	**9,870,168**
Satisfactory	50,211,456	-	-	**50,211,456**	31,433,716	-	-	**31,433,716**
Monitoring	31,356,779	56,067	-	**31,412,846**	15,125	45,516	-	**60,641**
Impaired	-	-	22,813	**22,813**	-	-	1,256	**1,256**
Total gross	86,482,956	56,067	22,813	**86,561,836**	51,041,820	45,516	1,256	**51,088,592**
Loss allowance	(335,746)	(259)	(7,339)	**(343,344)**	(131,448)	(527)	(423)	**(132,398)**
Carrying value	**86,147,210**	**55,808**	**15,474**	**86,218,492**	**50,910,372**	**44,989**	**833**	**50,956,194**

33. RISK MANAGEMENT (Contd.)

33.2 CREDIT RISK (Contd.)

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

Aging analysis of past due loans by class of financial assets

	2020	
Loans and advances to customers	Gross carrying amount MNT'000	Loss allowance MNT'000
0-30	87,823,253	1,171,685
31-60	62,491,972	6,215,004
61-90	12,706,014	3,060,742
91-180	9,701,582	4,507,953
More than 181 days	89,411,582	43,926,812
Total	**262,134,403**	**58,882,196**

	2019	
Loans and advances to customers	Gross carrying amount MNT'000	Loss allowance MNT'000
0-30	12,543,974	248,668
31-60	8,707,303	265,421
61-90	56,273,565	1,273,785
91-180	19,601,152	10,100,797
More than 181 days	67,500,605	31,894,916
Total	**164,626,599**	**43,783,587**

Modified financial assets

The following tables refer to modified financial assets where modification does not result in derecognition.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	**2020 MNT,000**
Gross carrying amount before modification	796,388
Loss allowance before modification	373,739
Net amortized cost before modification	422,649
Net modification loss	33,601
Net amortized cost after modification	**389,048**
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12 month ECL cost after modification	534,456

33.3 LIQUIDITY RISK

The Bank's liquidity risk refers to potential inability to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The Bank sets risk appetite on the liquidity metrics that should be in place to cover withdrawals at unexpected levels of demand. It is the Bank's policy to maintain a prudent mix of borrowed and core deposit base. In addition, the Bank maintains a statutory deposit with BoM equal to 6% and 15% of customer deposits in local and foreign currency, respectively.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities 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.

33. RISK MANAGEMENT (Contd.)

33.3 LIQUIDITY RISK (Contd.)

Analysis of financial liabilities by remaining contractual maturities (Contd.)

	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000	Carrying amount MNT'000
At 31 December 2020								
Financial liabilities								
Financial instruments at FVTPL								
Derivative financial instruments	-	177,450	287,488	263,640	-	-	728,578	728,578
Financial liabilities at amortised cost								
Due to banks	1,947,976	-	-	-	-	-	1,947,976	1,938,909
Due to customers	751,236,516	204,416,601	246,435,741	344,334,364	202,223,498	556,820,519	2,305,467,239	2,025,652,948
Borrowed funds	-	10,880,556	66,906,591	347,124,599	398,244,048	87,324,415	910,480,209	836,317,522
Lease liabilities	-	680,309	406,777	838,075	1,760,563	-	3,685,724	3,176,591
Other liabilities	-	11,134,709	309,118	112,073	52,564,186	6,078,350	70,198,436	70,198,436
Total	**753,184,492**	**227,289,625**	**314,345,715**	**692,672,751**	**654,792,295**	**650,223,284**	**3,292,508,162**	**2,938,012,984**
At 31 December 2019								
Financial liabilities								
Financial instruments at FVTPL								
Derivative financial instruments	-	2,199,963	2,488,227	539,270	-	-	5,227,460	5,227,460
Financial liabilities at amortised cost								
Repurchase agreements	-	297,898,939	-	-	-	-	297,898,939	297,898,939
Due to banks	9,734,992	5,725,329	-	-	-	-	15,460,321	12,229,311
Due to customers	626,099,457	232,606,251	296,261,368	341,012,004	187,945,776	411,078,930	2,095,003,786	1,843,180,057
Borrowed funds	-	61,238,342	90,981,362	226,741,132	624,997,224	14,614,932	1,018,572,992	895,987,384
Subordinated loans	-	1,255,582	1,255,581	57,150,262	-	-	59,661,425	54,415,887
Lease liabilities	-	1,041,128	746,172	2,239,099	1,314,565	-	5,340,964	4,867,446
Other liabilities	-	19,446,872	3,666,782	3,533,486	44,512,166	6,586,134	77,745,440	77,745,440
Total	**635,834,449**	**621,412,406**	**395,399,492**	**631,215,253**	**858,769,731**	**432,279,996**	**3,574,911,327**	**3,191,551,924**

33. RISK MANAGEMENT (Contd.)

33.3 LIQUIDITY RISK (Contd.)

Analysis of financial liabilities by remaining contractual maturities (Contd.)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	On demand MNT'000	Less than 3 months MNT'000	3 to 6 Months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000
At 31 December 2020							
Contingent liabilities (Note 30)	22,029,756	24,873,638	2,602,943	5,610,742	13,862,020	-	68,979,099
Commitments (Note 30)	1,121,180	4,117,816	16,134,525	24,579,986	40,608,329	-	86,561,836
Total	**23,150,936**	**28,991,454**	**18,737,468**	**30,190,728**	**54,470,349**	**-**	**155,540,935**
At 31 December 2019							
Contingent liabilities (Note 30)	11,518,812	11,377,160	15,086,740	16,786,454	16,240,681	-	71,009,847
Commitments (Note 30)	1,191,461	4,656,532	11,960,323	15,675,678	17,604,598	-	51,088,592
Total	**12,710,273**	**16,033,692**	**27,047,063**	**32,462,132**	**33,845,279**	**-**	**122,098,439**

33. RISK MANAGEMENT (Contd.)

33.4 MARKET RISK

The Bank defines the market risk as potential for loss of earnings or economic value due to adverse changes in financial markets and/or prices. The Bank's financial risk policy is ensure the Bank's financial risks, i.e. market risk, capital risk and liquidity risk are adequately managed and the Bank's capital and liquidity resources are deployed as efficiently and effectively as possible.

Interest Rate Risk

The Bank defines interest rate risk as potential loss due to a negative impact from adverse changes in interest rates and their implied volatility. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Bank's net interest income, while a long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures will be affected. The Bank's Risk Function periodically monitors the compliance against its risk appetite on the Bank's interest rate position.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income. The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2020 and 31 December 2019.

Currency	2020 Change in basis points	2020 Sensitivity of net interest income MNT'000	2019 Change in basis points	2019 Sensitivity of net interest income MNT'000
USD	+120	(371,867)	+120	861,225
MNT	+120	387,762	+120	(2,034,494)
USD	-120	371,867	-120	(861,225)
MNT	-120	(387,762)	-120	2,034,494

Foreign Currency Exchange Risk

The Bank defines the foreign currency exchange risk as potential loss due to adverse changes in currency exchange rates and their implied volatility. The Bank sets risk limits on the level of exposure by foreign currencies, which are monitored on a frequent basis against the approved risk appetite. Apart from using foreign exchange exposure mismatch, the Bank uses the Value-at-Risk ("VaR") approach to manage and measure foreign exchange risk.

The VaR approach

The VaR approach is an integral part of the Bank's risk management since March 2007. The VaR approach is designed to measure market risk in a normal market environment. It assumes that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution.

The Bank calculates the VaR losses using a 99% confidence level and a one day holding period. The calculation employs a Variance and Covariance technique and uses one year of historical market data as input variables. The one-day VaR losses are estimated at 99% confidence level, as follows:

	Variance/ Covariance MNT'000		Variance/ Covariance MNT'000
2020 – 31st December	11,762	2019 – 31st December	8,766
2020 - Average Daily	35,382	2019 - Average Daily	41,539
2020 – Highest	428,268	2019 – Highest	186,697
2020 – Lowest	5,643	2019 – Lowest	4,907

33. RISK MANAGEMENT (Contd.)

33.4 MARKET RISK (Contd.)

Currency Risk (Contd.)

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

Financial assets and financial liabilities	**MNT** **MNT'000**	**USD** **MNT'000**	**Euro** **MNT'000**	**Other** **MNT'000**	**Total** **MNT'000**
As at 31 December 2020					
Financial assets					
Cash and balances with BOM	29,721,462	112,293,899	13,457,080	24,032,007	179,504,448
Mandatory cash balances with BOM	97,370,599	89,002,069	-	-	186,372,668
Financial instruments at FVTPL					
Derivative financial instruments*	98,376,797	916,264,215	-	-	1,014,641,012
Securities	42,356,444				42,356,444
Financial assets at FVTOCI					
Equity securities	3,609,660	-	-	-	3,609,660
Loans and advances to customers	63,181,771	-	-	-	63,181,771
Financial assets at amortised cost					
Due from banks	30,110,785	35,846,487	2,203,733	8,400,594	76,561,599
Debt securities	1,207,367,188	-	-	-	1,207,367,188
Loans and advances to customers	1,194,261,405	78,112,606	407,816	-	1,272,781,827
Other assets	6,683,697	986,155	13,783	11,914	7,695,549
Total financial assets	**2,773,039,808**	**1,232,505,431**	**16,082,412**	**32,444,515**	**4,054,072,166**
Financial liabilities					
Financial instruments at FVTPL					
Derivative financial instruments*	847,411,536	98,989,663	-	-	946,401,199
Financial liabilities at amortised cost					
Due to banks	1,682,620	83,875	57,684	114,730	1,938,909
Due to customers	1,621,785,795	360,759,497	15,939,013	27,168,643	2,025,652,948
Borrowed funds	103,597,288	732,720,234	-	-	836,317,522
Lease liabilities	3,176,591	-	-	-	3,176,591
Other liabilities	48,617,479	19,626,139	32,623	1,922,195	70,198,436
Total financial liabilities	**2,626,271,309**	**1,212,179,408**	**16,029,320**	**29,205,568**	**3,883,685,605**
Net position	**146,768,499**	**20,326,023**	**53,092**	**3,238,947**	**170,386,561**

** The figure is shown at gross amount to reflect the actual currency position*

33. RISK MANAGEMENT (Contd.)

33.4 MARKET RISK (Contd.)

Currency Risk (Contd.)

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

Financial assets and financial liabilities	MNT MNT'000	USD MNT'000	Euro MNT'000	Other MNT'000	Total MNT'000
As at 31 December 2019					
Financial assets					
Cash and balances with BOM	408,364,177	130,581,723	9,782,333	22,474,019	571,202,252
Mandatory cash balances with BOM	143,083,618	69,960,645	-	-	213,044,263
Financial instruments at FVTPL					
Derivative financial instruments*	93,042,584	834,074,395	-	-	927,116,979
Securities	34,916,469	-	-	-	34,916,469
Financial assets at FVTOCI					
Equity securities	3,383,754	-	-	-	3,383,754
Loans and advances to customers	68,782,951	-	-	-	68,782,951
Financial assets at amortised cost					
Due from banks	3,300,751	109,893,585	2,330,812	6,698,442	122,223,590
Debt securities	467,741,147	-	-	-	467,741,147
Loans and advances to customers	1,595,125,875	130,135,334	437,313	86,062	1,725,784,584
Other assets	8,921,872	5,985,260	27,965	7,716	14,942,813
Total financial assets	**2,826,663,198**	**1,280,630,942**	**12,578,423**	**29,266,239**	**4,149,138,802**
Financial liabilities					
Financial instruments at FVTPL					
Derivative financial instruments*	744,197,414	98,270,044	-	-	842,467,458
Financial liabilities at amortised cost					
Repurchase agreements	297,898,939	-	-	-	297,898,939
Due to banks	1,419,318	6,944,391	1,065,089	2,800,513	12,229,311
Due to customers	1,399,084,962	410,728,111	10,441,206	22,925,778	1,843,180,057
Borrowed funds	147,762,631	748,224,753	-	-	895,987,384
Subordinated loans	-	54,415,887	-	-	54,415,887
Lease liabilities	4,867,446	-	-	-	4,867,446
Other liabilities	49,516,914	28,152,537	31,355	44,634	77,745,440
Total financial liabilities	**2,644,747,624**	**1,346,735,723**	**11,537,650**	**25,770,925**	**4,028,791,922**
Net position	**181,915,574**	**(66,104,781)**	**1,040,773**	**3,495,314**	**120,346,880**

** The figure is shown at gross amount to reflect the actual currency position*

33. RISK MANAGEMENT (Contd.)

33.4 MARKET RISK (Contd.)

Prepayment Effect

Prepayment effect is the financial effect which will be caused by the customers and counterparties that repay or request repayment earlier than expected.

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

If 20% of repayable financial instruments were prepaid at the beginning of the year, with all other variables held constant, the profit before tax for the year would be reduced by MNT 29,829 million (2019: MNT 19,204 million).

33.5 OPERATIONAL RISK

The Bank defines the operational risk as potential loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks. The Bank's operational risk function guides process owners on the definition and implementation of effective controls aimed at prevention, detection, and mitigation of operational risks. Process reviews and controls readings define operational risk ratings which guide the operational risk acceptance and management.

34. 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 BOM. During the past year, the Bank complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to the shareholder, return capital to the shareholder or issue new equity or equity related securities.

Regulatory capital

BOM requires commercial banks to maintain a minimum core capital adequacy ratio of 9% (2019: 9%) and risk weighted capital ratio of at least 12% (2019: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank as at 31st December were as follows:

	2020	**2019**
Core capital ratio	16.72%	11.91%
Risk weighted capital ratio	17.84%	15.84%

	2020 MNT'000	**2019 MNT'000**
Tier I capital		
Ordinary shares	55,342,753	55,342,753
Other reserves	10,531,368	10,531,368
Retained profits	164,465,806	145,960,360
Total Tier I Capital	230,339,927	211,834,481
Tier II capital		
Subordinated loans	-	54,415,887
Other	15,498,801	15,591,879
Total Tier II Capital	15,498,801	70,007,766
Total capital /capital base	**245,838,728**	**281,842,247**

34. CAPITAL ADEQUACY (Contd.)

Regulatory capital (Contd.)

The breakdown of risk weighted assets into the various categories of risk weights as at 31st December were as follows:

%	2020 Risk Assets MNT'000	2020 Weighted MNT'000	2019 Risk Assets MNT'000	2019 Weighted MNT'000
0	1,671,103,308	-	1,424,399,618	-
20	58,979,869	11,795,974	44,074,635	8,814,927
50	321,364,273	160,682,137	303,273,858	151,636,929
80	-	-	297,486,203	220,543,813
90	227,816,662	187,904,687		
100	1,032,199,414	890,057,651	1,470,125,595	1,300,414,497
125	4,817,278	5,572,823	-	-
150	60,735,471	66,930,423	27,862,878	41,696,087
Adjustments:				
Operational risk		45,070,045		53,372,616
Foreign exchange risk		10,005,298		2,327,753
Total	**3,377,016,275**	**1,378,019,038**	**3,567,222,787**	**1,778,806,622**

35. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the period end, the outbreak of COVID - 19 has been continuing and causing disruption to health and safety as well as businesses and economic activity in certain industries throughout the world. Although this is a non - adjusting subsequent event, as the situation evolves, the Bank continues to monitor these external circumstances and to assess potential impacts to the Bank's operations as they may become impacted for future financial periods.

No other matter or circumstance has occurred subsequent to the period end that has significantly affected, or may significantly affect, the operations of the Bank.

36. MONGOLIAN TRANSLATION

These financial statements are also prepared in Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.