XACBANK LLC

Financial Statements together with Independent Auditor's Report for the year ended 31 December 2018

XACBANK LLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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. Ganbold Chuluun Mr. Boldoo Magvan Ms. Tselmuun Nyamtaishir Mr. Michael Madden Mr. Ulambayar Bayansan Mr. Ryoji Nishimura Mr. Sanjay Gupta Mr. Yves Jacquot Mr. Niraj Vedwa (appointed on 13 June 2018) Mr. Andrzej Witak (appointed on 18 February 2019)
CORPORATE SECRETARY:	Ms. Ashidmaa Dashnyam
AUDITORS	Deloitte Onch Audit LLC

XACBANK LLC

STATEMENT BY EXECUTIVES

We, Bold Magvan 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 91 present fairly, in all material respects the financial position of the Bank as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

ХАСБАНК

BOLDOO MAGVAN
(Chief Executive Officer)

ERDENEBAYAR GANZORIG
(Chief Financial Officer)

Ulaanbaatar
Date: 27 March 2019

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 2018, 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 present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and their 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.

Deloitte.

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
LLC

Norjinbat Shagdarsuren
Director, CPA
Deloitte Onch Audit LLC
27 March 2019

GLOSSARY OF ABBREVIATION

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
IAS 39	IAS 39 — Financial Instruments: Recognition and Measurement
LGD	Loss given default
OCI	Other comprehensive income
PD	Probability of default
RMBS	Residential Mortgage Backed Securities
AFS	Available-for-sale
SPPI	Solely payments of principal and interest on the principle amount outstanding
VaR	Value at Risk

XACBANK LLC

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 IFRS 9 MNT'000	2017 IAS 39 MNT'000
Interest and similar income	4	335,889,236	286,627,361
Interest and similar expense	4	(244,880,134)	(205,503,627)
Net interest income		**91,009,102**	**81,123,734**
Fees and commission income	5	18,631,211	13,557,126
Fees and commission expenses	5	(4,416,425)	(2,448,885)
Net fees and commission income	5	**14,214,786**	**11,108,241**
Net trading loss	6	(18,306,148)	(12,022,591)
Net income from other financial instruments at FVTPL	7	3,400,429	-
Net other operating (expense)/income	8	(4,450,827)	4,075,942
Non interest (loss)/income		**(5,141,760)**	**3,161,592**
Total operating income		**85,867,342**	**84,285,326**
Net reversal of credit loss expense	9	9,676,954	3,513,377
Net operating income		**95,544,296**	**87,798,703**
Operating expenses	10	(75,294,266)	(67,776,345)
Amortisation of deferred grants	24	1,383,251	500,490
Profit before tax		**21,633,281**	**20,522,848**
Income tax expense	11	(1,263,992)	(412,832)
Profit for the year		**20,369,289**	**20,110,016**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Movement in investment revaluation reserve, net of tax		675,255	214,834
Gain on revaluation of premises	20	15,669,841	-
Other comprehensive income for the year, net of tax		**16,345,096**	**214,834**
Total comprehensive income for the year		**36,714,386**	**20,324,850**
Earnings per share (MNT):			
Basic earnings per share	12	1,000.77	988.03
Diluted earnings per share	12	1,000.77	988.03

The accompanying notes form an integral part of the financial statements

XACBANK LLC

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	12/31/2018 IFRS 9 MNT'000	12/31/2017 IAS 39 MNT'000
ASSETS			
Cash and balances with BOM	13.1	311,120,435	293,348,456
Mandatory cash balances with BOM	13.2	185,992,584	172,415,241
Financial instruments at FVTPL			
Derivative financial instruments	14.2	109,040,886	82,731,615
Securities	14.1	42,816,794	-
Financial assets at FVTOCI			
Equity securities	15	3,332,261	-
Loans and advances to customers	15	52,705,192	-
Financial investments - available-for-sale	16	-	47,366,617
Financial assets at amortised cost			
Due from banks	17.1	169,019,735	313,373,833
Reverse repurchase agreements	17.2	-	64,974,429
Debt securities	17.3	174,716,294	-
Loans and advances to customers	17.4	1,860,829,157	1,344,102,813
Financial investments - held-to-maturity	16	-	578,348,399
Other assets	18	31,893,205	30,500,275
Properties held for sale	19	13,858,798	16,800,466
Property and equipment	20	66,778,589	37,011,094
Intangible assets	21	12,791,528	9,972,150
Investment property	22	45,260,580	50,375,520
Deferred tax asset	11.2	4,568,450	1,167,009
TOTAL ASSETS		**3,084,724,488**	**3,042,487,917**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial instruments at FVTPL			
Derivative financial instruments	14.2	3,368,186	5,477,654
Financial liabilities at amortised cost			
Repurchase agreements	23.1	168,328,334	214,925,195
Due to banks	23.2	63,079,408	230,315,541
Due to customers	23.3	1,590,379,822	1,294,513,630
Borrowed funds	23.4	845,837,178	957,032,638
Subordinated loans	23.5	107,333,707	110,262,405
Deferred grants	24	4,858,878	2,997,719
Other liabilities	25	60,676,033	27,537,572
Income tax payable		4,050,015	66,142
TOTAL LIABILITIES		**2,847,911,561**	**2,843,128,496**
EQUITY			
Ordinary shares	26	55,342,753	55,342,753
Other reserves	27	10,531,368	10,531,368
Retained profits		131,475,993	123,483,759
Investment revaluation reserve		1,854,970	1,470,750
Regulatory reserve		21,938,002	8,530,791
Revaluation reserve for premises		15,669,841	-
TOTAL EQUITY		**236,812,927**	**199,359,421**
TOTAL LIABILITIES AND EQUITY		**3,084,724,488**	**3,042,487,917**

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

XACBANK LLC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Ordinary shares MNT'000	Other reserves MNT'000	Investment revaluation reserve MNT'000	Regulatory Reserve MNT'000	Revaluation reserve for premises MNT'000	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2018 (Audited)		**55,342,753**	**10,531,368**	**1,470,750**	**8,530,791**	**-**	**123,483,759**	**199,359,421**
Change related to the implementation of IFRS 9	**2.6**	-	-	(291,035)	6,383,415	-	(5,353,259)	739,121
Balance as at 1 January 2018 (Restated)		**55,342,753**	**10,531,368**	**1,179,715**	**14,914,206**	**-**	**118,130,500**	**200,098,542**
Profit for the year		-	-	-	-	-	20,369,289	20,369,289
Other comprehensive income		-	-	675,255	-	15,669,841	-	16,345,096
Total comprehensive income		**-**	**-**	**675,255**	**-**	**15,669,841**	**20,369,289**	**36,714,385**
Transfer to regulatory reserve		-	-	-	7,023,796	-	(7,023,796)	-
At 31 December 2018		**55,342,753**	**10,531,368**	**1,854,970**	**21,938,002**	**15,669,841**	**131,475,993**	**236,812,927**
At 1 January 2017 (Audited)		**55,342,753**	**10,531,368**	**1,255,916**	**8,144,440**	**-**	**103,760,094**	**179,034,571**
Profit for the year		-	-	-	-	**-**	20,110,016	20,110,016
Other comprehensive income		-	-	214,834	-	**-**	-	214,834
Total comprehensive income		**-**	**-**	**214,834**	**-**	**-**	**20,110,016**	**20,324,850**
Transfer to regulatory reserve		-	-	-	386,351	**-**	(386,351)	-
At 31 December 2017		**55,342,753**	**10,531,368**	**1,470,750**	**8,530,791**	**-**	**123,483,759**	**199,359,421**

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

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 MNT'000	2017 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		21,633,281	20,522,848
Adjustments for:-			
Gain on disposal of property and equipment	8	(25,232)	(15,282)
Gain on disposal of land use right	8	-	(200,000)
Loss/(gain) on disposal of foreclosed properties	8	427,264	(293,968)
Gain on disposal of property held for sale	8	(31,179)	(22,509)
Gain on disposal of investment property	8	(360,428)	-
Unrealised foreign exchange loss/(gain)	8	2,894,095	(4,598,391)
Reversal of credit loss expense	9	(9,676,954)	(3,598,002)
Fair value changes in financial assets measured at FVTPL	6, 7	(677,494)	-
Depreciation of property, plant and equipment	10	6,278,665	5,352,895
Amortisation of intangible assets	10	1,668,705	1,911,039
Property, plant and equipment written off	10	345,326	104,824
Impairment on loss on foreclosed properties	8	1,310,208	2,806,749
Impairment loss on financial investments	9	-	84,625
Fair value loss/(gain) on investment property	8	900,368	(1,186,692)
Loss on revaluation of premises	10	149,846	-
Amortisation of deferred grants	24	(1,383,251)	(500,490)
Interest income from financial assets measured at amortised cost and other comprehensive income	4	(335,889,236)	(286,627,361)
Interest income from financial assets measured at FVTPL	6, 7	(3188,410)	-
Interest expense	4	244,880,134	205,503,627
Dividend income	8	-	(99,329)
Operating profit before working capital changes		**(70,744,292)**	**(60,855,417)**
Changes in operating assets:			
Statutory deposits with BoM		(14,251,292)	(30,321,951)
Due from banks		150,254,145	(110,952,112)
Reverse repurchase agreements		65,000,000	(65,000,000)
Loans and advances to customers		(599,640,015)	(267,137,174)
Derivative financial instruments		37,425,197	32,077,431
Other assets		7,021,545	(11,122,447)
Changes in operating liabilities:			
Due to banks		(162,478,525)	222,311,792
Repurchase agreements		(46,596,861)	214,925,195
Due to customers		268,108,576	310,451,081
Derivative financial instruments		(2,109,468)	4,549,051
Other liabilities		31,667,922	(9,773,684)
Cash used in operations		**(336,343,068)**	**229,151,765**
Income tax paid		(809,633)	(261,096)
Interest received		277,893,003	223,833,426
Interest paid		(156,960,998)	(116,176,635)
Net cash flows generated from/(used in) operating activities		**(216,220,696)**	**336,547,460**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONT'D)

	Note	2018 MNT'000	2017 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		51,085,005	56,773,071
Purchase of financial investments		-	(258,767,626)
Proceeds from financial investments		-	370,796,328
Proceeds from disposal of equity securities at FVTOCI		10,000	-
Proceeds from disposal of debt securities at FVTPL		87,002,000	-
Proceeds from disposal of property, plant and equipment		86,897	129,353
Proceeds from disposal of intangible assets		-	200,000
Acquisition of property, plant and equipment	20	(20,772,485)	(6,866,683)
Acquisition of intangible assets	21	(4,537,429)	(1,793,684)
Proceeds from disposal of properties held for sale	19	4,951,106	7,110,806
Proceeds from disposal of investment properties		4,575,000	-
Proceeds from disposal of foreclosed properties	18	9,897,754	6,229,816
Dividends received from financial investments		-	99,329
Net cash flows generated from investing activities		**132,297,848**	**173,910,710**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	23.4.1, 23.5.1	(92,401,565)	(72,472,436)
Drawdown of borrowed funds	23.4.1	358,166,029	559,761,604
Repayment of borrowed funds	23.4.1	(500,596,789)	(496,554,731)
Repayment of subordinated loans	23.5.1	(13,258,453)	(6,716,811)
Deferred grants received	24	3,244,410	2,218,307
Net cash flows generated from financing activities		**(244,846,368)**	**(13,764,067)**
Effect of exchange rate changes on cash and cash equivalents		31,911,118	(8,932,269)
Net increase in cash and cash equivalents		(296,858,098)	487,761,834
Cash and cash equivalents brought forward		935,103,502	447,341,668
Cash and cash equivalents carried forward	13.3	**638,245,404**	**935,103,502**

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 27 March 2019.

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.

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:

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.

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

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.

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.

Valuation of premises

The Bank has 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.

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.

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

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 five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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 year, the Bank has applied a number of new standards and amendments to IFRSs issued by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

Effective for annual periods beginning or after	New Standards or Amendments
1 January 2018	• IFRS 9 *Financial Instruments* • IFRS 15 *Revenue from Contracts with Customers and the related Amendements* • Amendments to IAS 40 *Transfers of Investment Property* • Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* • IFRIC 22 *Foreign Currency Transactions and Advance Consideration* • Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with* IFRS 4 *Insurance Contracts* • Amendments to IAS 28 *As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle*

The adoption of the above standards and amendments does not have any impact other than IFRS 9.

The Bank has adopted IFRS 9, as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements as of and for the year ended 31 December 2017. As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures.

The impact of the implementation of the new standard on the financial position and equity of the Bank's recognised as at 1 January 2018 is disclosed in note 2.6.

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.

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 2019	• IFRS 16 *Leases* • IFRIC 23 *Uncertainty over Income Tax Treatments* • Amendments to IFRS 9 *Prepayment Features with Negative Compensation* • Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* • Amendments to IAS *28 Long-term Interests in Associates and Joint Ventures* • Annual Improvements to IFRS Standards 2015-2017 Cycle
1 January 2020	• Amendments to IFRS 3 *Definition of Business* • Amendments to IAS 1 and IAS 8 *Definition of Material*
1 January 2021	• 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 management 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.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

As at 31 December 2018, the Bank has operating lease commitments of MNT 10,186 mn as disclosed in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Bank will recognise a right-of-use asset and a corresponding liability in respect of all these leases. A reconciliation of the opening lease commitments disclosed in note 29 to this liability is as follows.

As at 31 December 2018	**2018** **MNT'000**
Total future lease payment for leases	10,185,672
Effect of discounting to present value	(1,475,975)
Total lease liabilities	**8,709,697**

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

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

Amendments to IFRS *9 Prepayment Features with Negative Compensation*

The amendments clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason i.e. prepayment features with negative compensation do not automatically fail SPPI. These amendments are not expected to have any impact on the financial statements of the Bank.

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.

2.4 Summary of significant accounting policies (Contd.)

Recognition of income and expenses (Contd.)

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.

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.

(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'.

(iv) 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 except those that are held for trading. 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’.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement ***(upon application of IFRS 9 in accordance with its transition provisions)***

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".

(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.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement ***(upon application of IFRS 9 in accordance with its transition provisions) (Contd.)***

(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").

(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 is disclosed in Note 23.4 and Note 23.5, respectively.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement ***(upon application of IFRS 9 in accordance with its transition provisions) (Contd.)***

(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 23.2).

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 23.3).

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 ***(upon application of IFRS 9 in accordance with its transition provisions)***

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 *(upon application of IFRS 9 in accordance with its transition provisions)* (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.)

Financial instruments – initial recognition and subsequent measurement ***(before application of IFRS 9 on 1 January 2018)***

(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 or financial liabilities held-for-trading

Financial assets or financial liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in ‘Net trading loss'. Interest and dividend income or expense are recorded in ‘Net trading loss’ according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

(iii) Financial assets and financial liabilities designated at FVTPL

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net other operating (expense)/income'. Interest earned or incurred is accrued in 'Interest and similar income' or 'Interest and similar expense', respectively, using the Effective interest rate (EIR), while dividend income is recorded in 'Net other operating (expense)/income' when the right to the payment has been established.

The Bank has no financial assets or liabilities designated at FVTPL as at 31 December 2017.

2.4 Summary of significant accounting policies (Contd.)

Financial instruments – initial recognition and subsequent measurement ***(before application of IFRS 9 on 1 January 2018) (Contd.)***

(iv) Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale financial investments are those which are neither classified as held-for-trading nor designated at FVTPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank has not designated any loans or receivables as available-for-sale financial investments. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the 'Investment revaluation reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Net other operating (expense)/income'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as 'Net other operating (expense)/income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of comprehensive income and removed from the 'Investment revaluation reserve'.

(v) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the comprehensive income statement. The losses arising from impairment of such investments are recognised in the statement of comprehensive income.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity financial investments during the following two years.

(iv) Loans and advances

This includes 'Due from banks' and 'Loans and advances to customers' which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at FVTPL.
- Those that the Bank, upon initial recognition, designates as available-for-sale financial investments.
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognised in the 'credit loss expense' in the statement of comprehensive income.

2.4 Summary of significant accounting policies (Contd.)

Impairment of financial assets *(before application of IFRS 9 on 1 January 2018)*

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

The Bank adopted the basic approach where the impairment allowances are computed on an average of historical loss experience of each risk grouping over the outstanding balance. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.4 Summary of significant accounting policies (Contd.)

Impairment of financial assets ***(before application of IFRS 9 on 1 January 2018) (Contd.)***

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income, is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

(iii) 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.

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.

2.4 Summary of significant accounting policies (Contd.)

Derecognition of financial assets and financial liabilities (Contd.)

(i) Financial assets (Contd.)

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.

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 28.

2.4 Summary of significant accounting policies (Contd.)

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.

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.

During the year, the Bank changed its accounting policy for the revaluation of premises (land and buildings) from cash 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, plant 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:

Building	40 years
Office furniture	10 years
Computer equipment and others	3 - 5 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	2 - 10 years
Patents and rights	3 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.)

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.

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.

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.

2.4 Summary of significant accounting policies (Contd.)

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 consultation with BoM.

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.

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 .

2.4 Summary of significant accounting policies (Contd.)

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 31.

2.5 Changes in accounting policies and disclosures

Revaluation of premises

During the year the Bank has changed its accounting policy for the valuation of premises (land and buildings) from cost model to the revaluation model. As allowed by IAS 16, the change from the cost model to revaluation model has been accounted prospectively. For details refer to note 20.

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

Impact of application of IFRS 9 first time adoption on the statement of financial position as at 1 January 2018

		IAS 39 revised presentation	Impacts of the IFRS 9 adoption		IFRS 9 revised presentation
		31 December 2017	Reclassifications	Remeasurement	1 January 2018
		MNT'000	MNT'000	MNT'000	MNT'000
ASSETS					
Cash and balances with BOM		465,763,697	(172,415,241)	-	293,348,456
Mandatory cash balances with BOM		-	172,415,241	(835,195)	171,580,046
Financial instruments at FVTPL					
Derivative financial instruments		82,731,615	-	-	82,731,615
Securities (*previously classified as available for sale*)					
Closed ended investment fund		3,124,459	-	(114,087)	3,010,372
Unquoted equities		250,597	(250,597)	-	-
Junior RMBS	[a]	-	27,324,935	(758,623)	26,566,312
Senior RMBS	[b]	-	14,465,636	(264,788)	14,200,848
Financial assets at FVTOCI					
Equity securities (*previously classified as available for sale)*	[c]	2,200,989	250,598	(9,667)	2,441,920
Loans and advances to customers *(previously classified as loans and advances to customers)*	[d]	-	74,661,230	1,419,570	76,080,800
Financial assets at amortised cost					
Due from banks		313,373,833	-	(1,056,915)	312,316,918
Repurchase agreements		64,974,429	-	-	64,974,429
Debt securities		620,138,971	(41,790,572)	(1,708,612)	576,639,787
Loans and advances to customers		1,344,102,813	(74,661,230)	4,963,845	1,274,405,428
Other assets		30,500,275	-	147,971	30,648,246
Properties held for sale		16,800,466	-	-	16,800,466
Property and equipment		37,011,094	-	-	37,011,094
Intangible assets		9,972,150	-	-	9,972,150
Investment property		50,375,520	-	-	50,375,520
Deferred tax asset		1,167,009	-	97,011	1,264,020
TOTAL ASSETS		**3,042,487,917**	**-**	**1,880,510**	**3,044,368,427**

Note: The adoption of IFRS 9 provisions related to the classification and measurement of financial instruments led to the following impacts as of 1 January 2018:

Investments in RMBS:

(a) The Bank holds investments in junior RMBS which were issued by a special purpose entity ("SPE") of Mongolian Mortgage Corporation JSC. After performing detailed analysis the Bank concluded that these investments do not pass the SPPI test given that the bond exposure to credit risk is greater than the credit risk of the underlying pool of residential mortgage loans held by the SPE. As a result this portfolio of securities, which was previously classified as available for sale and amounted to MNT 27,324,935 thousand, has been reclassified to financial instruments at FVTPL.

(b) The Bank holds investments in senior RMBS for a short period of time and hence the business model does not allow a classification at amortised cost or at FVTOCI. As a result this portfolio of security, which was previously classified as available for sale and amounted to MNT 14,465,637 thousand, has been reclassified to financial instruments at FVTPL.

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

Impact of application of IFRS 9 first time adoption on the statement of financial position as at 1 January 2018 (Contd.)

Investments in equity securities:

(c) The Bank has elected to irrevocably designate some strategic investments in a portfolio of non-trading equity securities as at FVTOCI as permitted under IFRS 9. These securities were previously classified as available for sale. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of. All other equity investments were classified as financial instruments at FVTPL as required by IFRS 9. IFRS 9 does not provide an exemption to measure investments in unquoted equity securities at cost. The Bank remeasured all such investments at fair value on adoption of IFRS 9.

Loans and advances from customers – mortgage loans:

(d) Bank originates mortgage loans with customers which meet the contractual cash flow characteristics test (i.e. the contractual payments represent SPPI). While the Bank has the intention to hold these loans to collect the contractual cash flows, the Bank may sell some of the loans into a securitisation structure as part of managing the risk, liquidity and funding needs. As the need arises, the Bank sells loans into SPE as part of a securitisation transaction that results in derecognition of the loans. At origination, it is not possible to identify which loans will be securitised. These securitisations are frequent and are for more than an insignificant value. Hence these mortgage loans are held in a business model whose objective is to hold or to sell loans. As a result this portfolio of mortgage loans, which was previously classified as loans and receivable and amounted to MNT 74,661,231 thousand, has been reclassified to FVTOCI.

	IAS 39 revised presentation	Impacts of the IFRS 9 adoption		IFRS 9 revised presentation
	31 December 2017	Reclassifications	Remeasurement	1 January 2018
	MNT'000	MNT'000	MNT'000	MNT'000
LIABILITIES AND EQUITY				
LIABILITIES				
Financial instruments at FVTPL				
Derivative financial instruments	5,477,654	-	-	5,477,654
Financial liabilities at amortised cost				
Repurchase agreements	214,925,195	-	-	214,925,195
Due to banks	230,315,541	-	-	230,315,541
Due to customers	1,294,513,630	-	-	1,294,513,630
Borrowed funds	957,032,638	-	-	957,032,638
Subordinated loans	110,262,405	-	-	110,262,405
Deferred grants	2,997,719	-	-	2,997,719
Other liabilities	27,537,572	-	1,141,389	28,678,961
Income tax payable	66,142	-		66,142
TOTAL LIABILITIES	**2,843,128,496**	**-**	**1,141,389**	**2,844,269,885**
EQUITY				
Ordinary shares	55,342,753	-	-	55,342,753
Share premium	-	-	-	-
Other reserves	10,531,368	-	-	10,531,368
Retained profits	123,483,759	378,379	(5,731,638)	118,130,500
Investment revaluation reserve	1,470,750	(378,379)	87,344	1,179,715
Regulatory reserve	8,530,791	-	6,383,415	14,914,206
TOTAL EQUITY	**199,359,421**	**-**	**739,121**	**200,098,542**
TOTAL LIABILITIES AND EQUITY	**3,042,487,917**	**-**	**1,880,510**	**3,044,368,427**

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

Impact of application of IFRS 9 first time adoption on the statement of financial position as at 1 January 2018 (Contd.)

Reconciliation of impairment allowance from IAS 39 to IFRS 9 as at 1 January 2018

Measurement Category	Loan loss under IAS 39	Reclassi- -fication	Remeasur- -ement	Loan loss allowance under IFRS 9
	MNT'000	MNT'000	MNT'000	MNT'000
Loans and receivables/ Financial assets at amortised cost				
Due from banks	-	-	1,056,915	1,056,915
Mandatory cash balances with BOM	-	-	835,195	835,195
Loans and advances to customers	80,406,810	(1,691,504)	(4,963,844)	73,751,462
Held to maturity (IAS 39)/ Financial assets at amortised cost				
Debt securities	-	-	1,708,612	1,708,612
AFS securities (IAS 39)/ Financial instruments at FVTPL				
Closed ended investment fund	-	15,701	114,086	129,787
Junior RMBS	134,888	-	758,623	893,511
Senior RMBS	72,102	-	264,788	336,890
Loans and advances to customers at FVTOCI	-	1,691,504	(1,419,570)	271,934
AFS equity securities (IAS39)/ Financial assets at FVTOCI (IFRS9)	394,080	(15,701)	(87,344)	291,035
Other financial assets	714,126	-	(147,971)	566,155
Financial guarantees and loan commitments	-	-	1,141,389	1,141,389
	81,722,006	**-**	**(739,121)**	**80,982,885**

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 2018 or 2017.

GEOGRAPHICAL INFORMATION

All the Bank's activities were carried out in Mongolia during the years ended 31 December 2018 and 2017. 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 2018.

	Retail Banking	Business Banking	Treasury	Total
	2018 MNT'000	2018 MNT'000	2018 MNT'000	2018 MNT'000
Income				
Third party	82,932,884	58,888,748	(55,954,290)	85,867,342
Inter–segment	(19,332,841)	(37,462,223)	56,795,064	-
	63,600,043	**21,426,525**	**840,774**	**85,867,342**
Net reversal of credit loss expense	4,683,860	2,896,211	2,096,883	9,676,954
Operating income	**68,283,903**	**24,322,736**	**2,937,657**	**95,544,296**
Results				
Net interest income/(expense)	72,659,107	57,305,201	(35,554,777)	94,409,531
Net fees and commission income	10,149,090	4,065,696	-	14,214,786
Net trading loss	-	-	(18,306,148)	(18,306,148)
Depreciation of property and equipment	(4,866,429)	(1,055,874)	(356,362)	(6,278,665)
Amortisation of intangible assets	(1,318,570)	(415,080)	64,945	(1,668,705)
Other operating expenses	(48,697,128)	(17,685,730)	(964,038)	(67,346,896)
Amortisation of deferred grants	-	1,383,251	-	1,383,251
Net other operating (expense)/income	124,686	(2,482,149)	(2,093,364)	(4,450,827)
Net reversal of credit loss expense	4,683,860	2,896,211	2,096,883	9,676,954
Inter segment	(19,332,841)	(37,462,223)	56,795,064	-
Segment profit for the year before tax	**13,401,775**	**6,549,303**	**1,682,203**	**21,633,281**
Income tax expense	(754,708)	(406,384)	(102,900)	(1,263,992)
Profit for the year after tax	**12,647,067**	**6,142,919**	**1,579,303**	**20,369,289**
Other segment information				
Capital expenditures:				
Property and equipment	17,168,475	3,604,011	-	20,772,486
Other intangible assets	3,748,525	788,904	-	4,537,429
	20,917,000	**4,392,915**	**-**	**25,309,915**
Total segment assets	**1,706,500,767**	**843,807,566**	**534,416,155**	**3,084,724,488**
Total segment liabilities	**1,545,011,486**	**776,612,162**	**526,287,913**	**2,847,911,561**

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 2017.

	Retail Banking	Business Banking	Treasury	Total
	2017 MNT'000	2017 MNT'000	2017 MNT'000	2017 MNT'000
Income				
Third party	24,035,902	82,031,540	(18,975,367)	87,092,075
Inter–segment	20,155,419	(42,035,772)	21,880,353	-
Total operating income	**44,191,321**	**39,995,768**	**2,904,986**	**87,092,075**
Net reversal of credit loss expense	2,988,915	(2,282,287)	-	706,628
Net operating income	**47,180,236**	**37,713,481**	**2,904,986**	**87,798,703**
Results				
Net interest income/(expense)	16,571,200	76,651,445	(12,098,911)	81,123,734
Net fees and commission income	6,166,839	4,941,402	-	11,108,241
Net trading loss	-	-	(12,022,591)	(12,022,591)
Depreciation of property and equipment	(3,925,407)	(1,421,728)	(5,760)	(5,352,895)
Amortisation of intangible assets	(1,150,593)	(760,446)	-	(1,911,039)
Other operating expenses	(34,912,044)	(24,250,600)	(1,349,767)	(60,512,411)
Amortisation of deferred grants	-	500,490	-	500,490
Net other operating (expense)/income	1,297,862	438,693	5,146,136	6,882,691
Net reversal of credit loss expense	2,988,915	(2,282,287)	-	706,628
Inter segment	20,155,419	(42,035,772)	21,880,353	-
Segment profit for the year before tax	**7,192,191**	**11,781,197**	**1,549,460**	**20,522,848**
Income tax expense				(412,832)
Profit for the year after tax				**20,110,016**
Other segment information				
Capital expenditure				
Property and equipment	6,708,237	158,446	-	6,866,683
Other intangible assets	954,225	839,459	-	1,793,684
	7,662,462	997,905	-	8,660,367
Total segment assets	**1,062,187,690**	**735,997,671**	**1,244,302,556**	**3,042,487,917**
Total segment liabilities	**963,005,429**	**651,973,884**	**1,228,149,183**	**2,843,128,496**

4. NET INTEREST INCOME

INTEREST AND SIMILAR INCOME

	2018 MNT'000	2017 MNT'000
Financial instruments at amortised cost and FVTOCI		
Loans and advances to customers	266,583,180	212,684,116
Debt securities	51,689,428	54,553,101
Due from banks	10,883,907	7,725,387
Cash and balances with central bank	6,533,771	8,135,020
Reverse repurchase agreements	198,950	95,413
Financial investments – available-for-sale	-	3,434,324
	335,889,236	**286,627,361**

The total interest income calculated using the EIR method for financial assets at FVTOCI is MNT 4.5 billion during the financial year 2018 and for financial assets measured at amortised cost is MNT 331.4 billion during the financial year 2018.

INTEREST AND SIMILAR EXPENSE

	2018 MNT'000	2017 MNT'000
Financial instruments at amortised cost		
Due to customers	138,481,144	116,155,932
Borrowed funds	83,845,895	69,786,539
Due to banks	11,365,789	8,522,432
Subordinated loans	10,555,842	9,959,897
Repurchase agreements	469,392	316,969
Other interest expenses	162,072	761,858
	244,880,134	**205,503,627**
NET INTEREST INCOME	**91,009,102**	**81,123,734**

5. NET FEES AND COMMISSION INCOME

	2018 MNT'000	2017 MNT'000
Fees and commission income		
Remittance, trade finance and other fees	7,389,426	5,026,307
Card related fees and commissions	8,844,442	5,538,268
Account service fees and commissions	1,929,942	1,364,265
Credit related fees and commissions	467,401	1,628,286
	18,631,211	**13,557,126**
Fees and commission expenses		
Bank service charges	1,529,746	627,947
Card transaction charges	2,823,202	1,820,938
Credit related commissions	63,477	-
	4,416,425	**2,448,885**
Net fees and commission income	**14,214,786**	**11,108,241**

6. NET TRADING LOSS

	2018 MNT'000	2017 MNT'000
Foreign exchange	(18,773,700)	(12,034,253)
Precious metal	2,077	11,662
Interest income on Senior RMBS Securities (FVTPL)	149,386	-
Fair value changes in Senior RMBS (FVTPL)	316,089	-
	(18,306,148)	(12,022,591)

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

	2018 MNT'000	2017 MNT'000
Interest income on Junior RMBS Securities	3,039,024	-
Fair value changes in Junior RMBS	363,460	-
Fair value changes in Closed ended Investment Fund	(2,055)	-
	3,400,429	-

8. NET OTHER OPERATING (EXPENSE)/INCOME

	2018 MNT'000	2017 MNT'000
Non-trade foreign exchange (loss)/gain	(2,894,095)	4,598,391
Other operating income	406,669	280,434
Gain on disposal of investment property	360,428	-
Rental income	257,600	186,086
Gain on disposal of property held for sale (Note 19)	31,179	22,509
Gain on disposal of property and equipment	25,232	15,282
Gain on disposal of land use right	-	200,000
Dividend income	-	99,329
Loss on disposal of foreclosed properties (Note 18)	(427,264)	293,968
Fair value (loss)/gain on investment property (Note 22)	(900,368)	1,186,692
Impairment loss on foreclosed properties (net) (Note 18)	(1,310,208)	(2,806,749)
	(4,450,827)	4,075,942

9. NET REVERSAL OF CREDIT LOSS EXPENSE

	2018 MNT'000	2017 MNT'000
Other non-financial assets (Note 18)	267,301	396,353
Mandatory cash balances with BOM (Note 13.2)	(161,246)	-
Other financial assets (Note 18)	(393,042)	517,222
Contingent liability and commitments (Note 25)	(785,911)	-
Due from banks (Note 17.1)	(1,056,915)	-
Debt securities (Note 17.3)	(1,665,166)	-
Loans and advances to customers (Note 15, Note 17.4)	(5,881,975)	(4,511,577)
Financial investments	-	84,625
	(9,676,954)	(3,513,377)

10. OPERATING EXPENSES

	2018 MNT'000	2017 MNT'000
Personnel expenses*	33,172,237	32,630,493
Professional services	7,176,246	6,089,903
Depreciation of property, plant and equipment (Note 20)	6,278,665	5,352,895
Rental of premises	5,068,120	4,518,422
Deposit insuranse expense	3,703,535	2,859,415
Advertising	3,156,312	1,833,417
Other operating expenses	2,266,533	1,345,575
Armored guard and security	1,996,360	2,095,068
Amortisation of intangible assets (Note 21)	1,668,705	1,911,039
Communications	1,590,165	1,384,899
Travelling expenses	1,432,378	1,323,811
Entertainment	1,331,730	965,601
Repairs and maintenance	1,140,956	848,690
Utilities	1,011,906	970,860
Stationary	937,556	682,199
Loan collection expenses	847,914	1,020,141
Transportation	823,528	683,987
Membership and audit expenses	515,852	457,925
Insurance	515,644	518,507
Property, plant and equipment written-off (Note 20)	345,326	104,824
Impairment loss on premises	149,846	-
Donations	118,133	62,401
Penalty	46,619	116,273
	75,294,266	67,776,345

*** Personnel expenses**		
Salaries, wages and bonus	28,626,629	28,509,533
Contribution to social and health fund	3,305,517	3,133,423
Employer of contribution to defined contribution pension plan	571,545	551,112
Staff training	668,546	436,425
	33,172,237	32,630,493

11. CORPORATE INCOME TAX

11.1 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018 MNT'000	2017 MNT'000
Current tax:		
Current income tax	4,793,506	324,966
Deferred tax		
Relating to origination and reversal of temporary differences (Note 11.2)	(3,529,514)	87,866
Income tax expense/(credit) for the year	**1,263,992**	**412,832**

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% (2017: 10%) for the first MNT 3 billion (2017: MNT 3 billion) of taxable income, and 25% (2017: 25%) on the excess of taxable income over MNT 3 billion (2017: 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 2018 and 2017 is as follows:

	2018 MNT'000	2017 MNT'000
Profit before tax	21,633,281	20,522,848
Tax at statutory tax rate of 25% (2017: 25%)	5,408,320	5,130,712
Effect of income tax subject to lower tax rate	(450,000)	(450,000)
Effect of income not subject to tax	(4,049,002)	(10,495,931)
Effect of expenses not deductible for tax purposes	2,596,480	6,228,051
Tax effect of utilization of tax losses not previously recognised	(2,241,806)	-
Tax expense for the year	**1,263,992**	**412,832**

The effective income tax rate for 2018 is 5.84% (2017: 2.01%).

	2018 MNT'000	2017 MNT'000
Unused tax losses for which no deferred tax asset have been recognised	552,183	3,128,772

The unrecognised tax credit will expire in 2019.

11.2 DEFERRED TAX ASSET /(LIABILITY)

	2018 MNT'000	2017 MNT'000
At 1 January	1,167,009	1,326,486
IFRS 9 adjustment (Note 2.6)	97,011	-
Adjusted balance as at 1 January 2018	1,264,020	1,326,486
Recognised in statement of profit or loss (Note 11.1)	3,529,514	(87,866)
Recognized in other comprehensive income	(225,084)	(71,611)
At end of the year	**4,568,450**	**1,167,009**

11. CORPORATE INCOME TAX (Contd.)

11.2 DEFERRED TAX ASSET /(LIABILITY) (Contd.)

Deferred taxes analysed by type of temporary difference

As at 31 December 2018	31 December 2017 MNT'000	IFRS 9 adjustment MNT'000	Adjusted balance as at 1 January 2018 MNT'000	Recognised in statement of profit or loss MNT'000	Recognized in other comprehensive income MNT'000	31 December 2018 MNT'000
Property and equipment	(506,574)	-	(506,574)	21,673	-	(484,901)
Loans and advances to customers	1,335,690	-	1,335,690	698,957	-	2,034,647
Derivative financial instruments	(2,850,578)	-	(2,850,578)	3,547,870	-	697,292
Investment property	(1,355,391)	-	(1,355,391)	1,355,391	-	-
Other liabilities		-	-	-	-	-
Deferral of long term incentive plan	282,660	-	282,660	279,893	-	562,553
Accrued expense for employees	630,000	-	630,000	(467,987)	-	162,013
Securities at FVTOCI	(490,251)	97,011	(393,240)	-	(225,084)	(618,324)
Tax loss carry forward	4,121,453	-	4,121,453	(1,906,283)	-	2,215,170
Net deferred tax asset/(liability)	**1,167,009**	**97,011**	**1,264,020**	**3,529,514**	**(225,084)**	**4,568,450**
Recognised deferred tax asset	6,369,803	-	6,369,803	5,903,784	-	5,671,675
Recognised deferred tax liability	(5,202,794)	97,011	(5,105,783)	(2,374,270)	(225,084)	(1,103,225)
Net deferred tax asset/(liability)	**1,167,009**	**97,011**	**1,264,020**	**3,529,514**	**(225,084)**	**4,568,450**

11. CORPORATE INCOME TAX (Contd.)

11.2 DEFERRED TAX ASSET /(LIABILITY) (Contd.)

Deferred taxes analysed by type of temporary difference

As at 31 December 2017	1/1/2017 MNT'000	Recognised in statement of profit or loss MNT'000	Recognized in other comprehensive income MNT'000	12/31/2017 MNT'000
Property and equipment	(731,210)	224,636	-	(506,574)
Loans and advances to customers	1,289,783	45,907	-	1,335,690
Derivative financial instruments	(2,035,636)	(814,942)	-	(2,850,578)
Investment property	-	(1,355,391)	-	(1,355,391)
Other liabilities		-	-	-
Deferral of long term incentive plan	506,731	(224,071)	-	282,660
Accrued expense for employees	-	630,000	-	630,000
Securities at FVTOCI	(418,640)	-	(71,611)	(490,251)
Tax loss carry forward	2,715,458	1,405,995		4,121,453
Net deferred tax asset/(liability)	**1,326,486**	**(87,866)**	**(71,611)**	**1,167,009**
Recognised deferred tax asset	4,511,972	2,306,538	-	6,369,803
Recognised deferred tax liability	(3,185,486)	(2,394,404)	(71,611)	(5,202,794)
Net deferred tax asset/(liability)	**1,326,486**	**(87,866)**	**(71,611)**	**1,167,009**

12. EARNINGS PER SHARE

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

	2018 MNT'000	2017 MNT'000
Profit for the period and total comprehensive income for the period attributable to equity holders of the Bank	20,369,289	20,110,016
Weighted average number of ordinary shares for basic and diluted earnings per share	20,353,656	20,353,656

Earnings per share

	2018 MNT	2017 MNT
Equity holders of the Bank for the period:		
Basic earnings per share	1,000.77	988.03
Diluted earnings per share	1,000.77	988.03

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

	2018 MNT'000	2017 MNT'000
Current account with BOM	258,253,435	250,370,809
Cash on hand	52,867,000	42,977,647
	311,120,435	**293,348,456**

13.2 MANDATORY CASH BALANCES WITH BOM

	2018 MNT'000	2017 MNT'000
Mandatory cash balances with BOM	186,666,533	172,415,241
Less: Impairment allowance	(673,949)	-
	185,992,584	**172,415,241**

Impairment allowance

	2018 MNT'000	2017 MNT'000
At beginning of the year	-	-
IFRS 9 adjustment (retained earnings)	835,195	-
Adjusted balance as at 1 January 2018	835,195	-
Reversal for the year (Note 9)	(161,246)	-
At end of the year	**673,949**	**-**

Current accounts with BOM are maintained in accordance with BOM's regulations. The balances maintained with BOM are determined at not less than 10.5% and 12% (2017: 12.0 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 2018, the average reserve required by BOM for that period of 2 weeks was MNT 142,545.00 million (2017: MNT 136,374.26 million) for local currency and MNT 44,121.53 million (2017: MNT 36,040.98 million) for foreign currency maintained in current accounts with BOM.

13. CASH AND BANK BALANCE (Contd.)

13.3 CASH AND CASH EQUIVALENTS

	Note	2018 MNT'000	2017 MNT'000
Cash and balances with BOM	13.1	311,120,435	293,348,456
Due from banks	17.1	169,019,735	313,373,833
BOM treasury bills	17.3, 16	169,172,190	489,702,314
Government treasury bills	17.3, 16	-	83,056,407
		649,312,360	1,179,481,010
Less: Placements with other banks with original maturities of more than three months		(11,066,956)	(161,321,101)
Less: Government treasury bills with original maturities of more than 3 months		-	(83,056,407)
Total cash and cash equivalents		638,245,404	935,103,502

ADDITIONAL INFORMATION ON NON CASH TRANSACTION

During the year, the Bank sold 8% mortgage loans with a carrying amount of MNT 44,869 million (2017: MNT 44,192 million) to MIK for which it received RMBS amounting to MNT 40,382 million (2017: MNT 39,773 million) senior tranche and MNT 4,487 million (2017: MNT 4,419 million) junior tranche.

During the year, the Bank repaid 4% funding due to BOM, amounting to MNT 46,357 million (2017: MNT 25,352 million), by transferring Senior RMBS carrying the same amount to BOM.

14. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

14.1 FINANCIAL ASSETS

	2018 MNT'000	2017 MNT'000
Debt securities		
Mongolian Mortgage Corporation HFC LLC-Junior bond	31,243,384	-
Mongolian Mortgage Corporation HFC LLC-Senior bond	8,451,006	-
Closed Ended Investment Fund	3,122,404	-
	42,816,794	**-**

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 2018 MNT'000	Liabilities 2018 MNT'000	Notional amount 2018 MNT'000
Derivatives held for trading			
Currency swaps	109,040,886	3,368,186	693,462,362
	109,040,886	**3,368,186**	**693,462,362**
	2017 MNT'000	**2017 MNT'000**	**2017 MNT'000**
Derivatives held for trading			
Currency swaps	82,731,615	5,477,654	657,585,111
	82,731,615	**5,477,654**	**657,585,111**

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 28.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Fair value	Changes in fair value taken directly through OCI	Credit loss expense
	2018 MNT'000	2018 MNT'000	2018 MNT'000
As at 31 December 2018			
Equity securities			
Unquoted equities	225,601	(295,031)	-
Quoted equities	3,106,660	2,150,002	-
Loans and advances to customers	52,705,192	-	(654,766)
	56,037,453	**1,854,971**	**(654,766)**

Loans and advances to customers at FVTOCI

	2018 MNT'000	2017 MNT'000
Gross carrying amount	53,359,958	-
Less: Allowance for impairment losses	(654,766)	-
Net loans and advances to customers	52,705,192	-

Impairment allowance for loans and advances to customers at FVTOCI

	2018 MNT'000	2017 MNT'000
At beginning of the year	1,691,504	-
IFRS 9 adjustment (retained earnings)	(1,419,570)	-
Adjusted balance as at 1 January 2018	271,934	-
Charge for the year (Note 9)	382,832	-
At end of the year	**654,766**	**-**

16. FINANCIAL INVESTMENTS

	2017 MNT'000
Available-for-sale:	
Senior RMBS, at fair value (a)	14,465,637
Junior RMBS, at fair value (a)	27,324,935
Unquoted fund, at fair value	3,124,459
	44,915,031
Equity investments	
Quoted equities, at fair value	2,200,989
Unquoted equities, at cost (b)	250,597
	47,366,617
Held-to-maturity:	
BOM treasury bills, at amortised cost (c)	489,702,314
Government treasury bills, at amortised cost (c)	83,056,407
Government bonds, at amortised cost (d)	5,589,678
	578,348,399

17. FINANCIAL ASSETS AT AMORTISED COST

17.1 DUE FROM BANKS

	2018 MNT'000	2017 MNT'000
Placement with foreign banks and financial institutions		
Current accounts	100,524,890	71,165,323
Placement with local banks and financial institutions		
Current accounts	12,985,702	24,774,740
Term deposits	55,509,143	217,433,770
	169,019,735	**313,373,833**

Impairment allowance for due from banks

At beginning of the year	-	-
IFRS 9 adjustment (retained earnings)	1,056,915	-
Adjusted balance as at 1 January 2018	1,056,915	-
Reversal for the year (Note 9)	(1,056,915)	-
At end of the year	-	-

17.2 REVERSE REPURCHASE AGREEMENTS

	2018 MNT'000	2017 MNT'000
Reverse repurchase agreements	-	64,974,429

17.3 DEBT SECURITIES

	2018 MNT'000	2017 MNT'000
BOM treasury bills	169,172,190	-
Government bonds	5,587,550	-
Less: Impairment allowance for debt securities	(43,446)	-
	174,716,294	-

Impairment allowance for debt securities

At beginning of the year	-	-
IFRS 9 adjustment (retained earnings)	1,708,612	-
Adjusted balance as at 1 January 2018	1,708,612	-
Reversal for the year (note 9)	(1,665,166)	-
At end of the year	**43,446**	-

17.4 LOANS AND ADVANCES TO CUSTOMERS

	2018 MNT'000 IFRS 9	2017 MNT'000 IAS 39
Loans and advances to customers at amortised cost		
Gross carrying amount	1,925,310,197	1,424,509,623
Less: Allowance for impairment losses	(64,481,040)	(80,406,810)
Net loans and advances to customers	**1,860,829,157**	**1,344,102,813**

17. FINANCIAL ASSETS AT AMORTISED COST (CONTD.)

17.4 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

Impairment allowance for loans and advances to customers at amortised cost

	2018 MNT'000	2017 MNT'000
At beginning of the year	80,406,810	90,846,538
IFRS 9 adjustment (retained earnings)	(6,655,348)	-
Adjusted balance as at 1 January 2018	73,751,462	90,846,538
Reversal for the year (Note 9)	(6,264,807)	(4,511,577)
Written off	(3,005,615)	(5,928,151)
At end of the year	**64,481,040**	**80,406,810**

18. OTHER ASSETS

	2018 MNT'000	2017 MNT'000
Other financial assets		
Receivables on cash and settlement services	3,156,135	7,027,524
Receivables from companies and individuals	1,940,673	2,203,579
Cash collaterals	1,412,996	1,312,383
Less: Impairment allowance for other financial assets	(173,113)	(714,126)
	6,336,691	**9,829,360**
Impairment allowance for other financial assets		
Stage 2	30,903	-
Stage 3	142,210	-
	173,113	**-**
Impairment allowance for other financial assets		
At beginning of the year	714,126	-
IFRS 9 adjustment (retained earnings)	(147,971)	-
Adjusted balance as at 1 January 2018	566,155	196,904
(Reversal)/charge for the year (Note 9)	(393,042)	517,222
At end of the year	**173,113**	**714,126**
Other non-financial assets		
Advance to vendor for goods and service	3,329,994	3,081,149
Prepaid expense	712,900	379,665
Consumables and other inventories	2,025,857	1,521,340
Precious metals	94,439	94,439
Other non-financial assets	2,421,862	5,958,977
Less: Impairment allowance for other non-financial assets	(1,146,498)	(906,712)
Foreclosed properties	28,633,145	19,747,034
Less: Impairment allowance for foreclosed properties	(10,515,185)	(9,204,977)
	25,556,514	**20,670,915**
Impairment allowance for other non-financial assets		
At beginning of the year	906,712	673,807
Charge for the year (Note 9)	267,301	396,353
Written off	(27,515)	(163,448)
At end of the year	**1,146,498**	**906,712**
Total other assets	**31,893,205**	**30,500,275**

18. OTHER ASSETS (Contd.)

	2018 MNT'000	2017 MNT'000
Foreclosed properties		
At beginning of the year	19,747,034	26,214,281
Add: Possession	21,802,726	42,460,073
Less: Sold during the year	(10,325,018)	(5,935,848)
Less: Transfer to investment properties (Note 22)	-	(33,283,555)
Less: Repayment	(502,013)	(19,586)
Less: Transfer to properties held for sale	(2,089,584)	(9,688,331)
	28,633,145	**19,747,034**
Less: Allowances for impairment losses	(10,515,185)	(9,204,977)
At end of the year	**18,117,960**	**10,542,057**
Impairment allowance for foreclosed properties		
At beginning of the period	9,204,977	6,398,228
Charge for the year (Note 8)	11,584,969	15,050,470
Recoveries (Note 8)	(10,274,761)	(12,243,721)
At end of the period	**10,515,185**	**9,204,977**

Proceeds from the sale of foreclosed properties amounted to MNT 9,898 million (2017: MNT 6,230 million) and the loss on the sale of such properties amounted to MNT 427 million (2017: gain amounted to MNT 294 million).

19. PROPERTIES HELD FOR SALE

	2018 MNT'000	2017 MNT'000
At beginning of the year	16,800,466	24,039,038
Add: Transfer from foreclosed properties	2,089,584	9,688,331
Add: Transfer from property, plant and equipment	-	903,380
Add: Transfer from loans and advances to customers	-	302,478
Less: Sold during the year	(4,919,927)	(7,088,297)
Less: Transfer to investment properties (note 22)	-	(11,044,464)
Less: Transfer to property, plant and equipment	(111,325)	-
At end of the year	**13,858,798**	**16,800,466**

Proceeds from the sale of buildings during the year were MNT 4,951 million (2017: MNT 7,111 million). The gain from the sale of those buildings amounted to MNT 31 million (2017: MNT 22 million) and is recorded as part of ‘Other operating income /(loss)’ (Note 8).

20. PROPERTY AND EQUIPMENT

	Leasehold improvements	Premises	Vehicles	Office furniture	Computer equipment and others	Construc-tion in progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2018							
At cost or revaluation							
At 1 January 2018	**4,656,246**	**21,056,908**	**2,389,478**	**5,912,357**	**27,179,507**	**1,799,912**	**62,994,408**
Additions	1,232,477	1,144,853	200,000	743,356	17,419,501	32,299	20,772,486
Transfer from property held for sale	-	-	219,000	-	-	-	219,000
Transfer from intangible assets	-	49,346	-	-	-	-	49,346
Write-off	-	-	-	(820,591)	(4,010,809)	-	(4,831,400)
Disposals	-	-	(233,373)	(69,700)	(10,537)	-	(313,610)
Revaluation	-	12,090,416	-	-	-	-	12,090,416
Reclassification	-	-	-	11,939	1,328,616	(1,340,555)	-
At 31 December 2018	**5,888,723**	**34,341,523**	**2,575,105**	**5,777,361**	**41,906,278**	**491,656**	**90,980,646**
Accumulated depreciation							
At 1 January 2018	**2,894,206**	**3,180,492**	**964,043**	**2,408,316**	**16,536,257**	**-**	**25,983,314**
Charge for the year (Note 10)	1,214,026	550,292	285,760	575,997	3,652,590	-	6,278,665
Transfer from property held for sale			107,675				107,675
Write-off	-	-	-	(543,280)	(3,942,794)	-	(4,486,074)
Disposals	-	-	(189,922)	(51,524)	(10,499)	-	(251,945)
Revaluation	-	(3,429,578)	-	-	-	-	(3,429,578)
At 31 December 2018	**4,108,232**	**301,206**	**1,167,556**	**2,389,509**	**16,235,554**	**-**	**24,202,057**
Net Carrying amount at 31 December 2018	**1,780,491**	**34,040,317**	**1,407,549**	**3,387,852**	**25,670,724**	**491,656**	**66,778,589**

20. PROPERTY AND EQUIPMENT (CONTD.)

	Leasehold improvements	Premises	Vehicles	Office furniture	Computer equipment and others	Construc-tion in progress	Total
At 31 December 2017	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
At cost							
At 1 January 2017	**4,170,771**	**21,295,649**	**3,624,809**	**5,760,341**	**23,299,110**	**760,982**	**58,911,662**
Additions	485,475	457,856	-	164,055	657,100	5,102,197	6,866,683
Write-off	-	-	(146,484)	(107)	(661,035)	-	(807,626)
Disposals	-	(31,000)	(120,904)	(105,974)	(84,893)	-	(342,771)
Reclassification	-	-	-	94,042	3,969,225	(4,063,267)	-
Reclassification to properties held for sale (note 19)	-	(665,597)	(967,943)	-	-	-	(1,633,540)
At 31 December 2017	**4,656,246**	**21,056,908**	**2,389,478**	**5,912,357**	**27,179,507**	**1,799,912**	**62,994,408**
Accumulated depreciation							
At 1 January 2017	**2,207,131**	**2,804,541**	**1,447,314**	**1,934,738**	**13,898,356**	**-**	**22,292,080**
Charge for the year	687,075	491,757	309,760	550,426	3,313,877	-	5,352,895
Write-off	-	-	(97,656)	(107)	(605,039)	-	(702,802)
Disposals	-	(7,746)	(73,275)	(76,741)	(70,937)	-	(228,699)
Reclassification to properties held for sale (note 19)	-	(108,060)	(622,100)	-	-	-	(730,160)
At 31 December 2017	**2,894,206**	**3,180,492**	**964,043**	**2,408,316**	**16,536,257**	**-**	**25,983,314**
Net carrying amount at 31 December 2017	**1,762,040**	**17,876,416**	**1,425,435**	**3,504,041**	**10,643,250**	**1,799,912**	**37,011,094**

20. PROPERTY AND EQUIPMENT (CONTD.)

Revaluation of premises

The premises have been revalued as at 31 December 2018 by management with reference to a valuations performed by independent valuers based in Ulaanbaatar, Mongolia, during the period from February 2018 to July 2018. These valuers hold a recognised and relevant professional qualification and have recent experience in valuation of assets of similar location and category. The valuation is carried out in accordance with the International valuation standards and relevant laws and legislations of Mongolia. The market value approach and cost approach were used for the valuation of premises. As a result, the Bank recognised revaluation gain of MNT 15,670 million in other comprehensive income and revaluation loss of MNT 150 million in current year profit or loss.

The fair value of the premises determined based on the market comparable approach reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the land under review. The fair value of the premises determined using the cost approach reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence.

In estimating the fair value of the premises, the highest and best use of the premises is their current use.

One of the key unobservable inputs used in valuing the premises was the adjusted average price per square metre which ranged from MNT 57,000 to MNT 929,000.

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) 2018 MNT'000
Market approach	15,449,359
Cost approach	18,590,958
	34,040,317

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

	2018 MNT'000	2017 MNT'000
Premises	**18,565,425**	**15,784,520**

21. INTANGIBLE ASSETS

	Patents and rights	Computer software	Software under development	Total
	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2018				
At cost				
At 1 January 2018	5,713,452	11,625,875	372,496	17,711,823
Additions	2,976,462	164,913	1,396,054	4,537,429
Reclassification	42,390	47,427	(89,817)	-
Reclassification to property and equipment	(85,490)	-	-	(85,490)
At 31 December 2018	8,646,814	11,838,215	1,678,733	22,163,762
Accumulated amortisation				
At 1 January 2018	2,709,992	5,029,681	-	7,739,673
Charge for the year	672,974	995,731	-	1,668,705
Reclassification to property and equipment	(36,144)	-	-	(36,144)
At 31 December 2018	3,346,822	6,025,412	-	9,372,234
Net carrying amount	**5,299,992**	**5,812,803**	**1,678,733**	**12,791,528**
At 31 December 2017				
At cost				
At 1 January 2017	5,404,392	9,712,465	1,050,460	16,167,317
Additions	98,765	6,960	1,687,959	1,793,684
Disposals	(40,000)	-	-	(40,000)
Reclassification	250,295	1,906,450	(2,156,745)	-
Reclassification to other assets	-	-	(209,178)	(209,178)
At 31 December 2017	5,713,452	11,625,875	372,496	17,711,823
Accumulated amortisation				
At 1 January 2017	2,043,923	3,824,711	-	5,868,634
Charge for the year	706,069	1,204,970	-	1,911,039
Disposals	(40,000)	-	-	(40,000)
At 31 December 2017	2,709,992	5,029,681	-	7,739,673
Net carrying amount	**3,003,460**	**6,596,194**	**372,496**	**9,972,150**

22. INVESTMENT PROPERTY

	2018	2017
	MNT'000	MNT'000
Beginning of the year	50,375,520	4,860,809
Transfer from properties held for sale (Note 19)	-	11,044,464
Transfer from foreclosed properties (Note 18)	-	33,283,555
Less: Sold during the year	(4,214,572)	-
Changes in the fair value of investment property	(900,368)	1,186,692
End of the year	**45,260,580**	**50,375,520**

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.

23. FINANCIAL LIABILITIES AT AMORTISED COST

23.1 REPURCHASE AGREEMENTS

	2018 MNT'000	2017 MNT'000
Repurchase agreements	168,328,334	214,925,195

The Bank sold BOM bills with an agreement to repurchase them in the future.

23.2 DUE TO BANKS

	2018 MNT'000	2017 MNT'000
Current accounts from banks and financial institutions	3,177,072	19,936
Term deposits from banks and financial institutions	59,902,336	230,295,605
	63,079,408	**230,315,541**

23.3 DUE TO CUSTOMERS

	2018 MNT'000	2017 MNT'000
Government deposits		
- Current accounts	6,004,083	5,878,773
- Demand deposits	634,968	5,266,327
- Time deposits	13,433,910	3,351,379
Private sector deposits		
- Current accounts	193,018,668	123,982,428
- Demand deposits	31,018,108	33,176,898
- Time deposits	71,533,736	64,051,100
Individual deposits		
- Current accounts	54,190,574	30,594,720
- Demand deposits	184,812,978	130,529,028
- Time deposits	1,035,732,797	897,682,977
	1,590,379,822	**1,294,513,630**

Included in 'Due to customers' are deposits of MNT 9,052 million (2017: MNT 4,176 million) held as collateral for irrevocable commitments under financial guarantees provided by the Bank as at 31 December 2018 and 2017 respectively.

23. FINANCIAL LIABILITIES AT AMORTISED COST (Contd.)

23.4 BORROWED FUNDS

	2018 MNT'000	2017 MNT'000
Borrowed funds from foreign financial institutions		
International Finance Corporation	96,994,480	119,138,833
Green Climate Fund ("GCF")	75,313,486	47,712,216
Overseas Private Investment Corporation	65,103,180	59,716,797
CaixaBank S.A	46,748,153	10,944,189
Cargill Financial Services international, Inc.	40,106,270	90,120,159
Global Climate Partnership Fund S.A., SICAV-SIF ("GCPF")	39,428,721	36,426,946
Women Entrepreneurs Debt Fund LP	32,959,374	36,193,824
Incofin CVBA	32,203,266	31,955,351
ODDO BHF AG	28,281,095	-
Stichting Fondsbeheer DGGF Lokaal MKB	26,582,933	24,350,811
Developing World Markets ("DWM")	25,256,975	12,150,266
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. ("FMO")	23,116,892	27,301,573
Swedfund International AB	21,958,733	24,102,955
Finnish Fund for Industrial Cooperation LTD	21,953,930	24,096,156
Micro, Small and Medium Enterprises Bonds S.A.	18,973,215	17,329,769
responsAbility Management company S.A.	17,742,241	24,298,899
SIFEM AG	17,588,332	19,313,427
Triodos Custody B.V.- Triodos Fair Share Fund	14,336,987	13,071,767
European Bank for Reconstruction and Development ("EBRD")	13,844,397	14,111,705
BlueOrchard Microfinace Fund	13,342,673	18,319,117
Symbiotics Sicav (Lux)	12,423,825	12,350,376
Actiam Institutional Microfinance Fund III	10,624,347	9,598,701
MHB Bank AG	9,397,642	8,425,253
Microfinance Initiative for Asia ("MIFA") S.A.	6,671,485	9,160,219
International Investment Bank ("IIB")	6,602,974	18,099,129
Asian Development Bank ("ADB")	-	31,147,317
International Bank For Economic Cooperation	-	16,946,021
Cargill TSF Asia PTE LTD	-	16,530,610
Oesterreichische Entwicklungsbank AG ("OeEB")	-	10,679,628
Societe De Promotion Et De Participation Pour La Cooperation Economique S.A ("PROPARCO")	-	10,509,696
Bank Im Bistum Essen EG ("BiB")	-	10,391,232
Guevoura Fund LTD	-	7,774,981
Total borrowed funds from foreign financial institutions	**717,555,606**	**812,267,923**
Borrowed funds from government organisations		
Government of Mongolia	46,227,934	78,947,443
Development Bank of Mongolia	43,273,146	33,856,608
Ministry of Finance	19,207,140	7,624,845
Ministry of Finance/ Japan Bank for International Cooperation	12,222,965	14,027,069
SME Development Fund	3,881,346	5,519,404
Asian Development Bank	3,291,716	3,799,693
International Fund for Agriculture Development	120,868	154,525
UB City and SME development fund	56,457	458,162
Educational Loan Fund	-	376,966
	128,281,572	**144,764,715**
Total borrowed funds	**845,837,178**	**957,032,638**

23. FINANCIAL LIABILITIES AT AMORTISED COST (Contd.)

23.4 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 2018 and 31 December 2017.

The Bank has made prepayments on its senior debts borrowed from three different counterparties amounting to USD 31,287 thousand all of which were bilateral agreement loans (2017: Nil). In June, the Bank made full principal prepayment of USD 3,000 thousand to Bank IM Bistum Essen eG which was due payable in April 2019. In December, the Bank made prepayment of USD 4,287 thousand to Asia Development Bank which was the outstanding principal on the USD 30,000 thousand due maturity in June 2019. Furthermore in December, the Bank made prepayment of USD 24,000 thousand to European Bank of Reconstruction and Development, which was the outstanding principal on the USD 30,000 thousand due maturity in December 2020.

Most of the borrowing agreements require compliance with certain debt covenants, which can be grouped in the following categories:

- capital related ratios (such as risk weighted capital adequacy ratio, solvency ratio, ratio between tier 1 capital and total capital)
- financial risks related ratios (such as maturity mismatches, currency mismatches, aggregate foreign currency open position, single currency foreign 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, single largest borrowers to the equity ratio, related party lending ratio and aggregate large exposures ratio);
- other 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, quarterly monitoring of debt covenants is carried out by relevant departments and officers (Finance and Treasury Division, including Chief Finance Officer, Chief Risk Officer, Risk Management Division, Credit Administration Division etc.). In case of anticipated or noted non-compliance with certain covenants, appropriate action is taken by management, such as requesting waiver on breached covenants or negotiating new agreement to change the limits (ratios).

As of 31 December 2018, The Bank has complied with debt covenants on all borrowings except on one senior loan with an outstanding balance of MNT 96,994,480 thousand on which the Bank's management has requested for the waiver, the default is resulting from the non-compliance of interest risk ratio, 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	2018 MNT'000	2017 MNT'000
Maturity less than 12 month	494,321,835	293,309,662
More than 12 months	351,515,343	663,722,976
Total borrowed funds	**845,837,178**	**957,032,638**

23. FINANCIAL LIABILITIES AT AMORTISED COST (Contd.)

23.4 BORROWED FUNDS (Contd.)

23.4.1 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.

	2018 MNT'000	2017 MNT'000
Opening balance	**957,032,638**	**936,093,995**
Financing cash flow - Inflow	358,166,029	559,761,604
Financing cash flow - Outflow	(500,596,789)	(496,554,731)
Interest paid	(81,952,831)	(59,012,456)
Non cash*	(46,357,000)	(25,352,400)
Other changes**	83,533,536	61,976,739
Exchange difference	76,011,595	(19,880,113)
Closing balance	**845,837,178**	**957,032,638**

* 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.

23. FINANCIAL LIABILITIES AT AMORTISED COST (Contd.)

23.5 SUBORDINATED LOANS

	2018 MNT'000	2017 MNT'000
IFC Capitalization Fund, L.P	107,333,707	98,092,339
International Finance Corporation	-	12,170,066
	107,333,707	**110,262,405**

(i) On 19 August 2010, the Bank received subordinated convertible debt of USD 5,000,000 from IFC, which was due for repayment on 15 December 2018. According to the agreement, conversion option can be exercised only if the existing shareholders of the Bank's parent company, TenGer Financial Group LLC, make a decision to increase the share capital of TenGer Financial Group LLC and some of these shareholders decide not to use their pre-emptive rights. In such situation, IFC is entitled to purchase remaining shares of TenGer Financial Group LLC at the same price offered to shareholders. IFC is entitled to make decision on whether shares are to be purchased for cash consideration or through requesting the Bank to repay the outstanding balance of subordinated debt.

The new shares to be acquired by IFC under the conversion option shall be common shares with full voting powers, shall rank pari passu to all other shares of TenGer Financial Group LLC and shall not exceed 20% of the aggregate share capital of TenGer Financial Group LLC.

The Bank cannot repay the subordinated convertible loan prior to the maturity date, except in the case of revocation of its banking license, insolvency, liquidation or restructuring and with the prior approval of BOM.

The loan carries a variable interest rate of 6-month LIBOR USD plus a margin of 6.5 % per annum. The EIR as of 31 December 2018 is 9.001% (2017: 8.256%) per annum. The debt ranks subordinated to all other senior creditors in case of liquidation.

In December 2018, the Bank made the full cash repayment of the subordinated convertible debt of USD 5,000,000 from IFC as such aforementioned conversion option was not exercised.

(ii) 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%. The EIR for USD 31,000,000 as of 31 December 2018 is 10.036% (2017: 8.932%). The loan is due for repayment in December 2020.

23.5.1 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.

	2018 MNT'000	2017 MNT'000
Opening balance	**110,262,405**	**123,443,085**
Financing cash flow – Outflow	(13,258,453)	(6,716,811)
Interest paid	(10,448,734)	(13,459,980)
Other changes*	10,868,201	10,194,850
Exchange difference	9,910,288	(3,198,739)
Closing balance	**107,333,707**	**110,262,405**

* Other changes include the movement of interest accrued.

24. DEFERRED GRANTS

	2018 MNT'000	2017 MNT'000
Micro Energy Credit Corporation ("MEC")	2,597,186	1,067,191
Green Climate Fund Proceeds	1,098,095	147,497
Green Climate Fund Grant on MSME program	988,948	1,016,823
The Small Enterprise Education and Promotion Network (“SEEP”)	94,868	87,122
Foundation EKO	71,019	65,221
Women's World Banking ("WWB")	4,551	4,179
Consultative Group to Assist the Poorest ("CGAP")	4,211	3,867
Green Climate Fund Grant on NDA	-	605,819
Total deferred grants	**4,858,878**	**2,997,719**

Movements in deferred grants are presented as follows:

	2018 MNT'000	2017 MNT'000
Balance at beginning of the year	2,997,719	1,279,902
Received during the year	3,244,410	2,218,307
Amortisation for the year	(1,383,251)	(500,490)
Balance at end of the year	4,858,878	2,997,719

25. OTHER LIABILITIES

	2018 MNT'000	2017 MNT'000
Other financial liabilities		
Syndicated loan funding	22,285,223	2,266,163
Clearing settlement	18,999,187	7,544,690
Other financial liabilities	13,495,910	13,652,748
Impairment allowance on off balance exposures	355,478	-
	55,135,798	23,463,601
Other non-financial liabilities		
Accrued salary costs and bonuses	648,051	2,250,000
Taxes payable other than on income tax	2,143,321	616,793
Other non-financial liabilities	2,748,863	1,207,178
	5,540,235	4,073,971
Total other liabilities	60,676,033	27,537,572

Impairment allowance on off balance exposures

	2018 MNT'000	2017 MNT'000
At beginning of the year	-	-
IFRS 9 adjustment (retained earnings)	1,141,389	-
Adjusted balance as at 1 January 2018	1,141,389	-
Reversal for the year (Note 9)	(785,911)	-
At end of the year	355,478	-

26. ORDINARY SHARES

	Number of Ordinary Shares of MNT 2,719.06 each		Amount	
	2018	2017	2018	2017
	MNT'000	MNT'000	MNT'000	MNT'000
At 1 January and 31 December	**20,353,656**	**20,353,656**	**55,342,753**	**55,342,753**

As at 31 December 2018 the Bank has 20,353,656 issued shares (2017: 20,353,656) at a par value of MNT 2,719.06 (2017: 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 Board as to the purpose of these reserves.

28. 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 2018

	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
At 31 December 2018				
Financial assets at FVTPL				
Derivative financial instruments				
Currency swaps	-	109,040,886	-	109,040,886
Senior RMBS	-	-	8,451,006	8,451,006
Junior RMBS	-	-	31,243,384	31,243,384
Closed ended investment fund	-	-	3,122,404	3,122,404
	-	109,040,886	42,816,794	151,857,680
Financial investments at FVTOCI				
Unquoted equities	-	-	225,601	225,601
Quoted equities	3,106,660	-	-	3,106,660
Loans and advances to customers			52,702,102	52,702,102
	3,106,660	-	52,927,703	56,034,363
Financial liabilities at FVTPL				
Derivative financial instruments				
Currency swaps	-	3,368,186	-	3,368,186
	-	3,368,186	-	3,368,186

	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
At 31 December 2017				
Financial assets				
Derivative financial instruments				
Currency swaps	-	82,731,615	-	82,731,615
	-	82,731,615	-	82,731,615
Financial investments available-for-sale				
Senior RMBS, at the fair value	-	-	14,465,637	14,465,637
Junior RMBS, at the fair value	-	-	27,324,935	27,324,935
Unquoted fund, at the fair value	-	-	3,124,459	3,124,459
Quoted equities	2,200,989	-	-	2,200,989
	2,200,989	-	44,915,031	47,116,020
Financial liabilities				
Derivative financial instruments				
Currency swaps	-	5,477,654	-	5,477,654
	-	5,477,654	-	5,477,654

28. 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 31/12/2018 MNT'000	Fair value as at 31/12/2017 MNT'000	Fair value hierarchy	Valuation technique(s)	key input(s)
1) Derivative financial instruments	105,672,700	77,253,961	Level 2	Market value, Interest rate parity	Libor rate, repo rate and government bonds yield
2) Senior and Junior RMBS	39,694,390	41,790,572	Level 3	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments
3) Unquoted equities	225,601	250,597	Level 3	Discounted cash flows	Future cash flows
4) Closed ended investment fund	3,122,404	3,124,459	Level 3	Net asset value	Market price of proxy real estate properties
5) Loans and advances to customers	52,702,102	-	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.

28. 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 2018	Note	Carrying amount MNT'000	Fair value MNT'000
Financial assets			
Cash and balances with BOM	13.1	311,120,435	311,120,435
Mandatory cash balances with BOM	13.2	185,992,584	185,992,584
Due from banks	17.1	169,019,735	169,019,735
Debt securities	17.3	174,716,294	174,716,294
Loans and advances to customers	17.4	1,860,829,157	1,846,361,375
Other assets	18	6,336,691	6,336,691
		2,708,014,896	2,693,547,114
Financial liabilities			
Due to banks	23.2	63,079,408	63,079,408
Repurchase agreements	23.1	168,328,334	168,328,334
Due to customers	23.3	1,590,379,822	1,590,379,822
Borrowed funds	23.4	845,837,178	845,734,936
Subordinated loans	23.5	107,333,707	108,373,553
Other liabilities	25	55,135,798	55,135,798
		2,830,094,247	2,831,031,851

As at 31 December 2017	Note	Carrying amount MNT'000	Fair value MNT'000
Financial assets			
Cash and balances with BOM	13.1	293,348,456	293,348,456
Mandatory cash balances with BOM	13.2	172,415,241	172,415,241
Due from banks	17.1	313,373,833	313,373,833
Reverse repurchase agreements	17.2	64,974,429	64,974,429
Financial investments held-to-maturity	16	578,348,399	578,348,399
Financial investments - AFS	16	250,597	250,597
Loans and advances to customers	17.4	1,344,102,813	1,337,306,840
Other assets	18	9,829,360	9,829,360
		2,776,643,128	2,769,847,155
Financial liabilities			
Due to banks	23.2	230,315,541	230,315,541
Repurchase agreements	23.1	214,925,195	214,925,195
Due to customers	23.3	1,294,513,630	1,294,513,630
Borrowed funds	23.4	957,032,638	958,206,334
Subordinated loans	23.5	110,262,405	111,972,252
Other liabilities	25	14,158,587	14,158,587
		2,821,207,996	2,824,091,539

29. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2018 MNT'000	2017 MNT'000
Contingent liabilities		
Financial guarantees	33,775,562	31,705,404
Performance and tender guarantees	42,355,580	29,657,202
Letters of credit	18,217,772	9,417,644
	94,348,914	70,780,250
Commitments		
Undrawn commitments to lend	96,364,859	80,325,273
Total	**190,713,773**	**151,105,523**

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:

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
Restated amount as at 1 January 2018	70,780,250	-	-	70,780,250
New guarantees and letters of credit granted	59,213,006	-	-	59,213,006
Expiry of guarantees and letters of credit	(35,644,342)	-	-	(35,644,342)
Gross carrying amount as at 31 December 2018	**94,348,914**	**-**	**-**	**94,348,914**
Loss allowance				
As at 31 December 2017	-	-	-	-
IFRS 9 adjustment (retained earnings)	461,145	-	-	461,145
Restated amount as at 1 January 2018	461,145	-	-	461,145
Charge for the year	59,226	-	-	59,226
Reversal for the year	(421,638)	-	-	(421,638)
Gross carrying amount as at 31 December 2018	**98,733**	**-**	**-**	**98,733**

29. CONTINGENT LIABILITIES AND COMMITMENTS (Contd.)

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:

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
Restated amount as at 1 January 2018	79,668,050	654,169	3,054	80,325,273
New facilities granted	51,839,035	3,235,398	8	55,074,441
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(58,024)	58,024	-	-
- Transfer from stage 2 to stage 1 and stage 3	359,842	(359,842)	-	-
- Transfer from stage 3 to stage 1 and stage 2	400	-	(400)	-
Utilisation or expiry of facilities	(38,820,413)	(211,788)	(2,654)	(39,034,855)
Gross carrying amount as at 31 December 2018	**92,988,890**	**3,375,961**	**8**	**96,364,859**
Loss allowance				
As at 31 December 2017	-	-	-	-
IFRS 9 adjustment (retained earnings)	673,201	6,860	183	680,244
Restated amount as at 1 January 2018	673,201	6,860	183	680,244
New facilities granted	140,750	26,452	2	167,204
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(199)	199	-	-
- Transfer from stage 2 to stage 1 and stage 3	476	(476)	-	-
- Transfer from stage 3 to stage 1 and stage 2	1	-	(1)	-
Utilisation or expiry of facilities	(584,532)	(5,989)	(182)	(590,703)
Gross carrying amount as at 31 December 2018	**229,697**	**27,046**	**2**	**256,745**

29. CONTINGENT LIABILITIES AND COMMITMENTS (Contd.)

Other commitments

	2018 MNT'000	2017 MNT'000
Approved and contracted for:		
Property and equipment	353,528	1,732,482
Intangible assets	2,074,976	22,385
	2,428,504	**1,754,867**

Operating lease commitments - Bank as lessee

At the end of the reporting period, the Bank had commitments for future minimum lease payments under operating leases which fall due as follows:

	2018 MNT'000	2017 MNT'000
Within one year	4,611,899	4,681,926
In the second to fifth years inclusive	5,573,773	8,580,735
	10,185,672	**13,262,661**

Operating lease payments represent rentals payable by the Bank for certain office properties. Leases are negotiated for an average of three years and rentals are fixed for the contractual period.

Operating lease commitments – Bank as lessor

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

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.

30. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 32.3 Liquidity risk and funding management for the Bank's contractual undiscounted repayment obligations.

At 31 December 2018	Less than 12 months 2018 MNT'000	More than 12 months 2018 MNT'000	Total 2018 MNT'000
Financial assets			
Cash and balances with BOM	311,120,435	-	311,120,435
Mandatory cash balances with BOM		185,992,584	185,992,584
Financial instruments at FVTPL			
Derivative financial instruments	66,824,407	42,216,479	109,040,886
Securities	-	42,816,794	42,816,794
Financial assets at FVTOCI			
Equity securities	-	3,332,261	3,332,261
Loans and advances to customers	2,100,857	50,604,335	52,705,192
Financial assets at amortised cost			
Due from banks	169,019,735	-	169,019,735
Debt securities	171,871,981	2,844,313	174,716,294
Loans and advances to customers	651,135,774	1,209,693,383	1,860,829,157
Other assets	5,457,344	879,347	6,336,691
	1,377,530,533	**1,538,379,496**	**2,915,910,029**
Non financial assets			
Other assets	25,462,075	94,439	25,556,514
Properties held for sale	13,858,798	-	13,858,798
Property and equipment	-	66,778,589	66,778,589
Intangible assets	274,257	12,517,271	12,791,528
Investment property	-	45,260,580	45,260,580
Deferred tax asset	-	4,568,450	4,568,450
	39,595,130	**129,219,329**	**168,814,459**
Total	**1,417,125,663**	**1,667,598,825**	**3,084,724,488**
Financial liabilities			
Financial instruments at FVTPL			
Derivative financial instruments	3,066,976	301,210	3,368,186
Financial liabilities at amortised cost			
Repurchase agreements	168,328,334	-	168,328,334
Due to banks	63,079,408	-	63,079,408
Due to customers	1,245,104,335	345,275,487	1,590,379,822
Borrowed funds	494,321,835	351,515,343	845,837,178
Subordinated loans	2,243,065	105,090,642	107,333,707
Other liabilities	24,512,071	30,623,727	55,135,798
	2,000,656,024	**832,806,409**	**2,833,462,433**
Non financial liabilities			
Deferred grants	4,858,878		4,858,878
Other liabilities	4,576,389	963,846	5,540,235
Income tax payable	4,050,015		4,050,015
	13,485,282	**963,846**	**14,449,128**
Total	**2,014,141,306**	**833,770,255**	**2,847,911,561**
Net position	**(597,015,643)**	**833,828,570**	**236,812,927**

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

At 31 December 2017	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial assets			
Cash and balances with BOM	293,348,456	-	293,348,456
Mandatory cash balances with the BOM		172,415,241	172,415,241
Due from banks	313,373,833	-	313,373,833
Reverse repurchase agreements	64,974,429	-	64,974,429
Derivative financial instruments	23,220,025	59,511,590	82,731,615
Financial investments -			
- available-for-sale	-	47,366,617	47,366,617
- held-to-maturity	573,314,385	5,034,014	578,348,399
Loans and advances to customers	535,126,823	808,975,990	1,344,102,813
Other assets	9,059,713	769,647	9,829,360
	1,812,417,664	**1,094,073,099**	**2,906,490,763**
Non financial assets			
Property and equipment	-	37,011,094	37,011,094
Intangible assets	193,243	9,778,907	9,972,150
Investment property		50,375,520	50,375,520
Other assets	20,576,476	94,439	20,670,915
Properties held for sale	16,800,466	-	16,800,466
Deferred tax asset	-	1,167,009	1,167,009
	37,570,185	**98,426,969**	**135,997,154**
Total	**1,849,987,849**	**1,192,500,068**	**3,042,487,917**

At 31 December 2017	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial liabilities			
Due to banks	230,315,541	-	230,315,541
Repurchase agreements	214,925,195	-	214,925,195
Due to customers	957,689,385	336,824,245	1,294,513,630
Derivative financial instruments	5,477,654	-	5,477,654
Borrowed funds	293,309,662	663,722,976	957,032,638
Subordinated loans	14,025,910	96,236,495	110,262,405
Other liabilities	8,536,325	5,622,262	14,158,587
	1,724,279,672	**1,102,405,978**	**2,826,685,650**
Non financial liabilities			
Deferred grants	2,997,719	-	2,997,719
Other liabilities	9,292,374	4,086,611	13,378,985
Income tax payable	66,142	-	66,142
	12,356,235	**4,086,611**	**16,442,846**
Total	**1,736,635,907**	**1,106,492,589**	**2,843,128,496**
Net position	**113,351,942**	**86,007,479**	**199,359,421**

31. 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 2018 and 2017, the Bank had the following balances and transactions with related parties.

	2018 MNT'000	2017 MNT'000
a) Loans and advances to related companies:		
Holding company	4,846,319	-
Fellow subsidiaries	14,142,182	9,928,820
	18,988,501	9,928,820
Members of the Board of Directors and key management personnel of the Bank	2,662,287	2,182,065
	21,650,788	**12,110,885**

The loans and advances to related parties are secured, bear interest rates from 8.0% to 22.8% (2017: 6.5% to 22.9%) per annum and are repayable within one to 20 years. The interest income received from such loans during the financial year amounted to MNT 1,615.5 million (2017: MNT 1,896.0 million).

	2018 MNT'000	2017 MNT'000
b) Deposits from related companies:		
Holding company	93,485	139,262
Fellow subsidiaries	2,742,552	2,667,193
Shareholders of holding company	152,712	90,827
	2,988,749	**2,897,282**
Members of the Board of Directors and key management personnel of the Bank	3,531,011	4,261,697
	6,519,760	**7,158,979**

The deposits from the above related parties bear interest rates from 0% to 13.6% (2017: 0% to 16.5%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT 635.6 million (2017: MNT 467.3 million).

	2018 MNT'000	2017 MNT'000
c) Loans from shareholders of TenGer Financial Group LLC:		
European Bank for Reconstruction and Development	13,844,397	14,111,705
International Finance Corporation (“IFC”)	96,994,480	119,138,833
Triodos Fair Share Fund	14,336,987	13,071,767
	125,175,864	**146,322,305**

31. RELATED PARTY DISCLOSURES (Contd.)

The loans from the above shareholders of TenGer Financial Group LLC bear interest rates from 4.43% to 15.46% (2017: 2.60% to 16.75%) per annum. The interest expenses paid on such loans during the financial year amounted to MNT 17,561.3 million (2017: MNT 11,987.3 million).

	2018 MNT'000	2017 MNT'000
d) Subordinated loan from shareholder of TenGer Financial Group LLC:		
IFC Capitalization Fund, L.P	107,333,707	98,092,339
International Finance Corporation	-	12,170,066
	107,333,707	**110,262,405**

The subordinated loan from the above shareholder of TenGer Financial Group LLC bears interest rates of 8.96% to 10.04% (2017: 8.26% to 8.96%) per annum. The interest expenses paid on such subordinated loan during the financial year amounted to MNT 10,555.8 million (2017: MNT 9,710.7 million).

	2018 MNT'000	2017 MNT'000
e) Finance lease from related companies		
Fellow subsidiary	756,605	52,401
	756,605	**52,401**

The finance lease from the above related parties bears interest rate from 15.6% to 18.0% (2017: 18.0%) per annum. The interest expenses paid on the above finance lease during the financial year amounted to MNT 44.1 million (2017: MNT 10.8 million).

	2018 MNT'000	2017 MNT'000
f) Derivative financial instruments from related companies:		
Derivative financial instruments - assets		
Fellow subsidiaries	-	546,344
Derivative financial instruments - liabilities		
Fellow subsidiaries	3,294,507	387,947
	(3,294,507)	**158,397**

	2018 MNT'000	2017 MNT'000
g) Guarantees issued to related companies:		
Holding company	8,589,490	7,888,172
	8,589,490	**7,888,172**

	2018 MNT'000	2017 MNT'000
h) Security fees paid to related company:		
Fellow subsidiary	1,838,608	1,910,383
	1,838,608	**1,910,383**

31. RELATED PARTY DISCLOSURES (Contd.)

	2018 MNT'000	2017 MNT'000
i) Commission income from related companies:		
Holding company	225,282	409
Fellow subsidiaries	5,459	4,118
Shareholders of holding company	539	144
	231,280	4,671
Members of the Board of Directors and key management personnel of the Bank	4,313	3,149
	235,593	7,820
j) Contract fee paid to related companies:		
Fellow subsidiaries	982,526	550,046
	982,526	550,046
k) Rental income from related companies:		
Fellow subsidiaries	58,415	55,977
	58,415	55,977
l) Insurance brokerage income from related companies:		
Fellow subsidiaries	541,686	349,069
	541,686	349,069
m) Claims income from related companies:		
Fellow subsidiaries	2,172	10,587
	2,172	10,587
n) Income and expense on derivative financial instruments:		
Unrealized gain /(loss)	1,235,788	676,809
Realized gain /(loss)	(3,452,904)	1,453,100
	(2,217,116)	2,129,909
o) Compensation of key management personnel:		
Short-term employee benefits	30,711	7,637
Salaries and bonuses	5,910,139	5,952,746
Contribution to social and health fund	694,222	642,449
	6,635,072	6,602,832

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 2018 and 2017, the Bank has not made any impairment allowance relating to amounts owed by related parties.

32. RISK MANAGEMENT

32.1 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.

32. RISK MANAGEMENT (Contd.)

32.1 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;

32. RISK MANAGEMENT (Contd.)

32.1 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.

32.2 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.

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.

32. RISK MANAGEMENT (Contd.)

32.2 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-months ECL is recognised;

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 is recognised; 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 is recognised.

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 analyses the movements of the ECL allowance during the year per class of assets.

Loans and advances to banks at amortised cost

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
Restated amount as at 1 January 2018	313,373,833	-	-	313,373,833
New financial assets originated or purchased	56,466,730	-	-	56,466,730
Financial assets that have been derecognised	(200,820,828)	-	-	(200,820,828)
Gross carrying amount as at 31 December 2018	**169,019,735**	**-**	**-**	**169,019,735**
Loss allowance				
As at 31 December 2017	-	-	-	-
IFRS 9 adjustment (retained earnings)	1,056,915	-	-	1,056,915
Restated amount as at 1 January 2018	1,056,915	-	-	1,056,915
Reversal for the year	(1,056,915)	-	-	(1,056,915)
Gross carrying amount as at 31 December 2018	**-**	**-**	**-**	**-**

32. RISK MANAGEMENT (Contd.)

32.2 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
Restated amount as at 1 January 2018	1,158,711,610	153,885,311	111,912,703	1,424,509,624
New financial assets originated or purchased	1,304,777,230	105,211,588	10,606,958	1,420,595,776
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(21,044,748)	14,875,825	6,168,923	-
- Transfer from stage 2 to stage 1 and stage 3	19,038,390	(22,721,177)	3,682,787	-
- Transfer from stage 3 to stage 1 and stage 2	739,864	650,394	(1,390,258)	-
Financial assets that have been derecognised	(758,627,424)	(78,041,203)	(26,761,003)	(863,429,630)
Written-off	(82,873)	(8,213)	(2,914,529)	(3,005,615)
Gross carrying amount as at 31 December 2018	**1,703,512,049**	**173,852,525**	**101,305,581**	**1,978,670,155**

	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 2017				80,406,810
IFRS 9 adjustment (retained earnings)				(6,383,415)
Restated amount as at 1 January 2018	20,021,960	6,400,375	47,601,060	74,023,395
Charge for the year	7,465,759	1,843,298	7,774,626	17,083,683
Changes in gross carrying amount				
- Transfer from stage 1 to stage 2 and stage 3	(3,426,815)	263,761	3,163,054	-
- Transfer from stage 2 to stage 1 and stage 3	112,631	(1,792,934)	1,680,303	-
- Transfer from stage 3 to stage 1 and stage 2	6,131	119,812	(125,943)	-
Reversal for the year	(14,139,054)	(3,577,146)	(5,249,457)	(22,965,657)
Written-off	(82,873)	(8,213)	(2,914,529)	(3,005,615)
Gross carrying amount as at 31 December 2018	**9,957,739**	**3,248,953**	**51,929,114**	**65,135,806**

32. RISK MANAGEMENT (Contd.)

32.2 CREDIT RISK (Contd.)

Debt investment securities at amortised cost

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
Restated amount as at 1 January 2018	578,346,270	2,129	-	578,348,399
New financial assets originated or purchased	169,172,191	-	-	169,172,191
Financial assets that have been derecognised	(572,758,721)	(2,129)	-	(572,760,850)
Gross carrying amount as at 31 December 2018	**174,759,740**	**-**	**-**	**174,759,740**
Loss allowance				
As at 31 December 2017	-	-	-	-
IFRS 9 adjustment (retained earnings)	1,708,612	-	-	1,708,612
Restated amount as at 1 January 2018	1,708,387	225	-	1,708,612
Reversal for the year	(1,664,941)	(225)	-	(1,665,166)
Gross carrying amount as at 31 December 2018	**43,446**	**-**	**-**	**43,446**

32. RISK MANAGEMENT (Contd.)

32.2 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	2018 MNT'000	2017 MNT'000
Loans and advances to customers at amortised cost	1,925,310,197	1,424,509,623
Loans and advances to banks at amortised cost	613,939,703	736,159,883
Debt investment securities at amortised cost	174,759,740	578,348,399
Loans and advances to customers at FVTOCI	53,359,958	-
Other assets	6,509,804	10,543,486
Loan commitments	96,364,859	80,325,273
Contingent liabilities	94,348,914	70,780,250
Total	**2,964,593,175**	**2,900,666,914**

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 concentrations 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

	2018		2017	
Concentration by sector	**MNT'000**	**%**	**MNT'000**	**%**
Sovereign	444,919,968	72.5	422,786,050	57.4
Banking	169,019,735	27.5	313,373,833	42.6
Total	**613,939,703**	**100.0**	**736,159,883**	**100.0**

Loans and advances to customers at amortised cost and FVTOCI

	2018		2017	
Concentration by sector	**MNT'000**	**%**	**MNT'000**	**%**
Trading	423,496,799	21.4	285,635,149	20.1
Mortgage	182,611,581	9.2	186,115,171	13.1
Production	265,926,560	13.4	216,372,312	15.2
Services	203,196,622	10.3	127,195,710	8.9
Consumption	514,600,588	26.0	256,558,337	18.0
Construction	106,041,477	5.4	88,263,519	6.2
Other	66,971,534	3.4	51,038,824	3.6
Deposit backed	136,624,522	6.9	158,415,760	11.1
Mining	41,457,441	2.1	19,717,888	1.4
Agricultural	37,743,031	1.9	35,196,953	2.5
Total	**1,978,670,155**	**100.0**	**1,424,509,623**	**100.0**

32. RISK MANAGEMENT (Contd.)

32.2 CREDIT RISK (Contd.)

Debt investment securities at amortised cost

	2018		2017	
Concentration by sector	**MNT'000**	**%**	**MNT'000**	**%**
Sovereign	5,587,550	3.2	88,646,085	15.3
Banking	169,172,190	96.8	489,702,314	84.7
Total	**174,759,740**	**100.0**	**578,348,399**	**100.0**

Loan commitments

	2018		2017	
Concentration by sector	**MNT'000**	**%**	**MNT'000**	**%**
Retail				
Unsecured loan	10,286,885	10.7	6,124,876	7.6
Micro business loan	1,661,735	1.7	3,109,000	3.9
Business loan	20,660,139	21.4	9,538,602	11.9
SME and Corporate				
Trading	30,992,341	32.2	17,825,682	22.2
Production	7,521,566	7.8	11,045,223	13.8
Services	3,185,122	3.3	8,651,929	10.8
Construction	632,309	0.7	517,172	0.6
Other	21,424,717	22.2	23,512,780	29.3
Mining	-	-	9	-
Agricultural	45	-	-	-
Total	**96,364,859**	**100.0**	**80,325,273**	**100.0**

Financial guarantees (un-funded)

	2018		2017	
Guarantees	**MNT'000**	**%**	**MNT'000**	**%**
Trading	37,513,913	39.8	17,665,964	25.0
Services	26,874,664	28.5	24,412,421	34.5
Production	13,260,035	14.1	17,564,552	24.8
Construction	11,064,370	11.7	11,034,755	15.6
Mining	5,393,819	5.7	56,419	0.1
Other	239,970	0.3	37,770	0.1
Agricultural	2,143	0.0	8,369	0.0
Total	**94,348,914**	**100.0**	**70,780,250**	**100**

32. RISK MANAGEMENT (Contd.)

32.2 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:	2018 MNT'000	2017 MNT'000
Property	2,369,539,582	1,899,166,638
Cash deposits	276,182,598	246,905,286
Vehicles	209,185,157	152,938,459
Equipment	107,429,622	107,602,806
Goods in turnover	988,027,051	710,611,576
Other & Unsecured	902,867,607	1,146,348,627
Total	**4,853,231,617**	**4,263,573,392**

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:

BOM 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 an analysis of all financial assets exposed to credit risk in terms of credit grading. The amounts presented are gross of impairment allowances.

32. RISK MANAGEMENT (Contd.)

32.2 CREDIT RISK (Contd.)

Credit quality per class of financial assets (Contd.)

Loans and advances to banks at amortised cost

	2018			2018	2017
Grade	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**	**Total MNT'000**
Excellent	46,490,332	-	-	46,490,332	7,604,583
Good	122,529,403	-	-	122,529,403	63,560,740
Satisfactory	-	-	-	-	242,208,510
Monitoring	-	-	-	-	-
Impaired	-	-	-	-	-
Total gross	**169,019,735**	**-**	**-**	**169,019,735**	**313,373,833**
Loss allowance	-	-	-	**-**	-
Carrying value	**169,019,735**	**-**	**-**	**169,019,735**	**313,373,833**

Loans and advances to customers at amortised cost and FVTOCI

	2018			2018	2017
Grade	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**	**Total MNT'000**
Excellent	314,927,914	-	-	314,927,914	349,003,227
Good	354,708,321	-	-	354,708,321	94,147,588
Satisfactory	997,646,368	-	-	997,646,368	678,215,528
Monitoring	36,229,446	173,852,525	-	210,081,971	191,230,577
Impaired	-	-	101,305,581	101,305,581	111,912,703
Total gross	**1,703,512,049**	**173,852,525**	**101,305,581**	**1,978,670,155**	**1,424,509,623**
Loss allowance	(9,957,739)	(3,248,953)	(51,929,114)	(65,135,806)	(80,406,810)
Carrying value	**1,693,554,310**	**170,603,572**	**49,376,467**	**1,913,534,349**	**1,344,102,813**

32. RISK MANAGEMENT (Contd.)

32.2 CREDIT RISK (Contd.)

Credit quality per class of financial assets (Contd.)

Debt investment securities at amortised cost

	2018			2018	2017
Grade	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**	**Total MNT'000**
Excellent	-	-	-	-	-
Good	174,759,740	-	-	174,759,740	489,702,313
Satisfactory	-	-	-	-	88,646,086
Monitoring	-	-	-	-	-
Impaired	-	-	-	-	-
Total gross	**174,759,740**	**-**	**-**	**174,759,740**	**578,348,399**
Loss allowance	(43,446)	-	-	(43,446)	-
Carrying value	**174,716,294**	**-**	**-**	**174,716,294**	**578,348,399**

Loan Commitment

	2018			2018	2017
Grade	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**	**Total MNT'000**
Excellent	2,164,665	-	-	2,164,665	1,618,557
Good	5,499,961	-	-	5,499,961	3,829,339
Satisfactory	85,324,264	-	-	85,324,264	74,220,154
Monitoring	-	3,375,961	-	3,375,961	654,169
Impaired	-	-	8	8	3,054
Total gross	**92,988,890**	**3,375,961**	**8**	**96,364,859**	**80,325,273**
Loss allowance	(229,697)	(27,046)	(2)	(256,745)	-
Carrying value	**92,759,193**	**3,348,915**	**6**	**96,108,114**	**80,325,273**

32. RISK MANAGEMENT (Contd.)

32.2 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

	2018	
Loans and advances to customers	Gross carrying amount MNT'000	Loss allowance MNT'000
0-30	15,776,677	308,946
31-60	2,010,102	41,121
61-90	23,076,491	538,479
91-180	7,403,095	2,706,062
More than 181 days	93,902,486	45,911,582
Total	**142,168,851**	**49,506,190**

	2017	
Loans and advances to customers	Gross carrying amount MNT'000	Loss allowance MNT'000
0-30	35,733,816	712,839
31-60	4,909,826	177,909
61-90	21,477,972	611,876
91-180	11,949,193	3,225,853
More than 181 days	99,963,510	44,375,208
Total	**174,034,315**	**49,103,685**

32.3 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 10.5% and 12% 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.

32. RISK MANAGEMENT (Contd.)

32.3 LIQUIDITY RISK (Contd.)

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

Financial liabilities	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 2018								
Financial instruments at FVTPL								
Derivative financial instruments	-	983,839	2,083,137	-	301,210	-	3,368,186	3,368,186
Financial liabilities at amortised cost								
Repurchase agreements	-	168,328,334	-	-	-	-	168,328,334	168,328,334
Due to banks	52,942,520	12,487,653	-	-	-	-	65,430,173	63,079,408
Due to customers	560,025,743	173,836,772	188,223,678	370,263,049	165,356,618	360,845,187	1,818,551,047	1,590,379,822
Borrowed funds	-	25,103,188	122,620,535	341,622,352	429,124,215	19,819,744	938,290,034	845,837,178
Subordinated loans	-	2,588,153	4,831,217	5,176,304	115,443,250	-	128,038,924	107,333,707
Other liabilities		22,334,592	89,110	1,831,839	24,223,307	6,656,950	55,135,798	55,135,798
Total	**612,968,263**	**405,662,531**	**317,847,677**	**718,893,544**	**734,448,600**	**387,321,881**	**3,177,142,496**	**2,833,462,433**

32. RISK MANAGEMENT (Contd.)

32.3 LIQUIDITY RISK (Contd.)

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

Financial liabilities	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 2017								
Financial instruments at FVTPL								
Derivative financial instruments	-	3,928,970	1,548,684	-	-	-	5,477,654	5,477,654
Financial liabilities at amortised cost								
Repurchase agreements	-	214,925,195	-	-	-	-	214,925,195	214,925,195
Due to banks	341,215	202,423,941	30,825,000	-	-	-	233,590,156	230,315,541
Due to customers	399,628,635	121,794,537	172,220,394	308,778,372	163,628,294	355,719,469	1,521,769,701	1,294,513,630
Borrowed funds	-	28,718,088	92,891,778	227,104,543	710,003,554	15,971,516	1,074,689,479	957,032,638
Subordinated loans	-	2,355,183	2,355,184	18,736,278	113,185,047	-	136,631,692	110,262,405
Other liabilities	-	8,315,065	112,724	108,536	2,815,783	2,806,479	14,158,587	14,158,587
Total	**399,969,850**	**582,460,979**	**299,953,764**	**554,727,729**	**989,632,678**	**374,497,464**	**3,201,242,464**	**2,826,685,650**

32. RISK MANAGEMENT (Contd.)

32.3 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 2018							
Contingent liabilities (Note 29)	19,766,848	14,954,909	16,665,631	21,949,611	21,011,915	-	94,348,914
Commitments (Note 29)	627,521	1,065,124	3,221,377	15,214,633	76,235,997	207	96,364,859
Total	**20,394,369**	**16,020,033**	**19,887,008**	**37,164,244**	**97,247,912**	**207**	**190,713,773**
At 31 December 2017							
Contingent liabilities (Note 29)	10,986,941	17,480,643	6,733,875	10,210,163	25,368,628	-	70,780,250
Commitments (Note 29)	541,054	5,081,977	3,846,178	20,425,248	50,415,268	15,548	80,325,273
Total	**11,527,995**	**22,562,620**	**10,580,053**	**30,635,411**	**75,783,896**	**15,548**	**151,105,523**

32. RISK MANAGEMENT (Contd.)

32.4 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 2018 and 31 December 2017.

Currency	2018 Change in basis points	2018 Sensitivity of net interest income MNT'000	2017 Change in basis points	2017 Sensitivity of net interest income MNT'000
USD	+120	(1,265,186)	+120	(9,269,820)
MNT	+120	(4,951,995)	+120	(1,342,970)
USD	-120	1,265,186	-120	9,269,820
MNT	-120	4,951,995	-120	1,342,970

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
2018 – 31st December	62,197	2017 – 31st December	22,623
2018 - Average Daily	67,435	2017 - Average Daily	67,585
2018 – Highest	338,885	2017 - Highest	209,527
2018 – Lowest	13,138	2017 - Lowest	11,205

32. RISK MANAGEMENT (Contd.)

32.4 MARKET RISK (Contd.)

Currency Risk (Contd.)

The table below summarizes the Bank's exposure to foreign exchange risk as 31 December, 2018. 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 2018					
Financial assets					
Cash and balances with BOM	164,724,761	120,316,963	6,898,565	19,180,146	311,120,435
Mandatory cash balances with BOM	141,871,056	44,121,528			185,992,584
Financial instruments at FVTPL					
Derivative financial instruments*	59,871,281	766,185,137	-	-	826,056,418
Securities	42,816,794	-	-	-	42,816,794
Financial assets at FVTOCI					
Equity securities	3,332,261	-	-	-	3,332,261
Loans and advances to customers	52,705,192	-	-	-	52,705,192
Financial assets at amortised cost					
Due from banks	33,783,795	117,028,509	3,598,946	14,608,485	169,019,735
Debt securities	174,716,294	-	-	-	174,716,294
Loans and advances to customers	1,655,540,864	203,011,030	2,263,936	13,327	1,860,829,157
Other assets	5,203,311	1,100,662	15,363	17,355	6,336,691
Total financial assets	**2,334,565,609**	**1,251,763,829**	**12,776,810**	**33,819,313**	**3,632,925,561**
Financial liabilities					
Financial instruments at FVTPL					
Derivative financial instruments*	647,641,930	63,165,788		9,576,000	720,383,718
Financial liabilities at amortised cost					
Repurchase agreements	168,328,334	-	-	-	168,328,334
Due to banks	41,193,584	20,229,281	1,162,113	494,430	63,079,408
Due to customers	1,261,312,313	305,967,279	9,623,569	13,476,661	1,590,379,822
Borrowed funds	136,408,147	707,324,082	2,104,949	-	845,837,178
Subordinated loans	-	107,333,707	-	-	107,333,707
Other liabilities	22,460,699	24,166,953	1,078	8,507,068	55,135,798
Total financial liabilities	**2,277,345,007**	**1,228,187,090**	**12,891,709**	**32,054,159**	**3,550,477,965**
Net position	**57,220,602**	**23,576,739**	**(114,899)**	**1,765,154**	**82,447,596**

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

32. RISK MANAGEMENT (Contd.)

32.4 MARKET RISK (Contd.)

Currency Risk (Contd.)

The table below summarizes the Bank's exposure to foreign exchange risk as 31 December, 2017. 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 2017					
Assets					
Cash and balances with BOM	125,707,439	35,111,152	6,924,928	125,604,937	293,348,456
Mandatory cash balances with BOM	136,374,261	36,040,980			172,415,241
Due from banks	10,542,763	292,007,372	4,566,513	6,257,185	313,373,833
Reverse repurchase agreements	64,974,429	-	-	-	64,974,429
Derivative financial instruments*	32,231,463	689,658,178	-	-	721,889,641
Financial investments					
-available-for-sale	47,366,617	-	-	-	47,366,617
-held-to-maturity	578,348,399	-	-	-	578,348,399
Loans and advances to customers	1,189,263,639	154,705,331	116,203	17,640	1,344,102,813
Other assets	8,967,464	838,957	14,809	8,130	9,829,360
	2,193,776,474	**1,208,361,970**	**11,622,453**	**131,887,892**	**3,545,648,789**
Liabilities					
Due to banks	107,403,362	8,855	1,472	122,901,852	230,315,541
Repurchase agreements	214,925,195	-	-	-	214,925,195
Due to customers	1,032,151,509	244,458,810	11,407,268	6,496,043	1,294,513,630
Derivative financial instruments*	612,562,613	32,073,067	-	-	644,635,680
Borrowed funds	153,570,210	803,462,428	-	-	957,032,638
Subordinated loans	-	110,262,405	-	-	110,262,405
Other liabilities	11,315,445	2,660,180	33,265	149,697	14,158,587
	2,131,928,334	**1,192,925,745**	**11,442,005**	**129,547,592**	**3,465,843,676**
Net position	**61,848,140**	**15,436,225**	**180,448**	**2,340,300**	**79,805,113**

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

32. RISK MANAGEMENT (Contd.)

32.4 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 21,289 million (2017: MNT 10,647 million).

32.5 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.

33. 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% (2017: 9%) and risk weighted capital ratio of at least 14% (2017: 14%) 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:

	2018	2017
Core capital ratio	9.88%	11.19%
Risk weighted capital ratio	15.70%	16.86%

	2018 MNT'000	2017 MNT'000
Tier I capital		
Ordinary shares	55,342,753	55,342,753
Other reserves	10,531,368	10,531,368
Retained profits	131,475,993	123,483,759
Total Tier I Capital	197,350,114	189,357,880
Tier II capital		
Subordinated loans	98,675,057	94,678,940
Other	17,524,811	1,470,750
Total capital /capital base	**313,549,982**	**285,507,570**

33. CAPITAL ADEQUACY (Contd.)

Regulatory capital (Contd.)

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

	2018		2017	
%	Risk Assets MNT'000	Weighted MNT'000	Risk Assets MNT'000	Weighted MNT'000
0	907,420,660	-	1,191,014,742	-
20	149,547,634	29,909,527	144,285,015	28,857,003
50	321,319,461	160,659,731	290,551,406	145,275,703
70	355,305,541	248,713,879	305,848,188	214,093,732
100	1,477,120,317	1,477,120,317	1,208,053,821	1,208,053,821
120	42,767,264	51,320,717	57,503,707	69,004,448
150	-	-	-	-
Adjustments:				
Operational risk		23,689,291		20,867,155
Foreign exchange risk		5,295,078		6,804,386
Total	**3,253,480,877**	**1,996,708,540**	**3,197,256,879**	**1,692,956,248**

34. 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.

35. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period requiring disclosure in the financial statements.