TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC
(Incorporated in Mongolia)

Audited Financial Statements
31 December 2019

Building a better working world

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General information

Board of directors	Mr. Erdenebileg D (Chairman) Mr. Koppa R Ms. Yanjmaa D Mr. Khurelbaatar.D Ms. Bolormaa J Mr. Delgersaikhan J
Secretary of board of directors	Ms. Batchimeg U
Registered office	Peace Avenue 19, Sukhbaatar District, 1st khoroo, Ulaanbaatar 14210, Mongolia
Auditors	Ernst & Young Mongolia Audit LLC Certified Public Accountants

We, Erdenebileg Doljin, being the Chairman of the Board of Directors of Trade and Development Bank of Mongolia LLC (the "Bank"), Orkhon Onon, being the Chief Executive Officer, and Enkhtuya Dulamjav, being the Chief Financial Officer, primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with the basis of preparation in Note 2 to the financial statements.

Erdenebileg Doljin	**Orkhon Onon**	**Enkhtuya Dulamjav**
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Ulaanbaatar, Mongolia

Date: 7 January 2021

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Trade and Development Bank of Mongolia LLC

Opinion

We have audited the financial statements of Trade and Development Bank of Mongolia LLC (the "Bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with the Basis of preparation in Note 2 to the financial statements.

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* (the "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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matters (contd.)

Key audit matters	How our audit addressed the key audit matter
Allowance for loan losses As of the reporting date, the Bank recorded gross amount of loans and advances to customers of MNT 3,934,355,996 thousand and allowance for impairment of MNT 431,204,350 thousand, of which the net amount of MNT 3,503,151,646 thousand represented 44.8% of total assets. During the financial year ended 31 December 2019, the Bank recorded an amount of MNT 41,897,020 thousand as provision for impairment losses in the statement of profit or loss and other comprehensive income. Allowance for impairment losses relating to loans and advances to customers represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. Credit impairments are calculated on a portfolio basis for loans of a similar nature and on an individual basis for significant loans. Significant management judgement is required particularly from the estimation of uncertainties in the calculation of the individually assessed loan loss allowances which are based upon various assumptions and factors including the financial condition of the counter party, current macro-economic environment and industry factors and the client specific factors identified from the review of credit records in accordance with the guidelines from the Bank of Mongolia ("BoM"). Relevant disclosures of the accounting policy, critical accounting estimates and judgments and other relevant disclosures are included in Notes 4, 5, 17 and 35 to the financial statements, respectively.	Our audit procedures included obtaining an understanding and testing of the relevant controls relating to the approval of credit facilities, the subsequent monitoring and remediation of exposures including the Bank's processes and key indicators used to derive the allowance for loan losses. In addition, we performed substantive audit procedures for loan loss provisions, which included but were not limited to procedures to: • test the appropriateness of the loan classification, • test the accuracy of the delinquency information by the relevant IT application controls, • test the Bank's assessment of the qualitative factors by assessing key assumptions applied by the Bank, • compare the Bank's classification against our understanding of the relevant industries, business, environment and the requirements of the BOM's guidelines for provisioning, • recalculate the loan loss provisions. We also assessed the adequacy of the related disclosure in the notes to the financial statements.
Impairment of loans receivables from Mongolian Copper Corporation LLC and Kanetic Pte Ltd As at the reporting date, the Bank has outstanding loan receivables from Mongolian Copper Corporation LLC ("MCC") and Kanetic Pte Ltd amounting to MNT 354,204,870 thousand in total, of which a total credit impairment provision amounting to MNT 106,148,741 thousand was made against these balances as of the reporting date. Significant management judgement is required particularly from the estimation of uncertainties in the calculation of the provision for abovementioned borrowers which are based upon specific factors, including MCC's ongoing discussion with the Government of Mongolia. Relevant disclosures are included in Notes 17 to the financial statements.	Our audit procedures included, among others, procedures to: • analyse and understand the Bank's internal control as well as the related internal regulations regarding the monitoring of credit quality, • test the Bank's assessment of the qualitative factors by assessing the key assumptions applied by the Bank, taking into account of the facts and circumstances available to date, • compare the Bank's provisioning classification of loan receivables against the requirements of the BOM's guidelines for provisioning, • evaluate whether the borrowers are related parties to the Bank or interrelated to each other, • analyse events occurring after the reporting date of the financial statements to the date of approval of the financial statements. We also assessed the adequacy of the related disclosure in the notes to the financial statements

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of preparation in Note 2 to the financial statements, 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.

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.

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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 in accordance with the basis of presentation in note 2 to the financial statements.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT (CONTD.)

To the shareholders of Trade and Development Bank of Mongolia LLC

Other Matter

The financial statements of the Bank for the year ended 31 December 2018 were audited by another auditor who expressed an unqualified opinion in accordance with IFRSs as modified by Bank of Mongolia guidelines on those statements on 29 March 2019.

This report is made solely to the shareholders of the Bank, as a body, in accordance with the audit requested by shareholders 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.

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by	**Approved by**
Mandakhbayar Dorjbat	Adrian Chu
Director	Partner

Ulaanbaatar, Mongolia
Date: 07 January 2021

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	Notes	2019 MNT'000	2018 MNT'000
Interest and similar income	**6**	701,609,264	664,509,719
	7	(521,699,037)	(476,295,697)
Net interest income		**179,910,227**	**188,214,022**
Fee and commission income	**8**	55,442,199	50,364,170
Fee and commission expense	**8**	(15,069,569)	(12,421,789)
Net fee and commission income		**40,372,630**	**37,942,381**
Other operating income	**9**	32,067,455	38,332,650
Total operating income		**252,350,312**	**264,489,053**
Credit loss expense	**10**	(58,086,927)	(129,089,040)
Net operating income		**194,263,385**	**135,400,013**
Operating expenses	**11**	(129,888,474)	(90,721,016)
Profit before tax		**64,374,911**	**44,678,997**
Income tax expense	**12.1**	(206)	(250,109)
Profit for the year		**64,374,705**	**44,428,888**
Other comprehensive income/(loss) (net of tax):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Net unrealised change in fair value of available-for-sale financial assets	**31**	11,506,771	(2,984,025)
Net unrealised gain/(loss) on valuation of cash flow hedges		(29,398,246)	(42,973,435)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Net change in revaluation reserves of property and equipment	**31**	–	(782,428)
Other comprehensive income/(loss)		**(17,891,475)**	**(46,739,888)**
Total comprehensive income/(loss) for the year, net of tax		**46,483,230**	**(2,311,000)**

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of financial position

As at 31 December 2019

	Notes	2019 MNT'000	2018 MNT'000
ASSETS			
Cash and balances with Bank of Mongolia	**13**	1,096,100,972	1,014,958,242
Due from other banks and financial institutions	**14**	301,381,272	280,597,007
Financial investments	**15**	1,832,616,770	1,802,607,143
Derivative financial instruments	**16**	494,861,756	379,263,246
Loans and advances to customers	**17**	3,503,151,646	3,226,363,877
Other assets	**18**	103,788,084	62,235,160
Investment property	**19**	80,897,528	80,114,526
Assets held for sale	**20**	–	64,869,626
Property and equipment	**21**	392,311,221	372,060,017
Right-of-use assets	**22**	12,717,699	–
Intangible assets	**23**	5,870,617	2,776,409
TOTAL ASSETS		**7,823,697,565**	**7,285,845,253**
LIABILITIES			
Due to banks and other financial institutions	**24**	189,383,778	182,358,976
Repurchase agreements	**25**	65,013,356	65,013,356
Due to customers	**26**	3,821,434,134	3,599,691,922
Derivative financial instruments	**16**	76,226,529	1,515,973
Borrowed funds	**27**	759,290,707	981,328,159
Sub-ordinated debt	**28**	150,046,057	–
Debt securities issued	**29**	1,536,488,710	1,475,814,484
Other liabilities	**30**	508,520,501	51,342,301
Lease liabilities	**22**	13,591,398	–
Income tax liabilities	**12.2**	–	–
TOTAL LIABILITIES		**7,119,995,170**	**6,357,065,171**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	**31**	50,000,707	55,205,582
Share premium	**31**	19,298,006	210,393,158
Other reserves	**31**	151,476,785	169,368,260
Retained earnings		482,926,897	493,813,082
TOTAL EQUITY		**703,702,395**	**928,780,082**
TOTAL LIABILITIES AND EQUITY		**7,823,697,565**	**7,285,845,253**

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of changes in equity

For the year ended 31 December 2019

	Share capital MNT'000 (Note 31)	**Share premium MNT'000** (Note 31)	**Other reserves MNT'000** (Note 31)	**Retained earnings MNT'000**	**Total equity MNT'000**
At 1 January 2018	50,000,011	19,272,456	216,108,148	558,363,333	843,743,948
Profit for the year	–	–	–	44,428,888	44,428,888
Other comprehensive income	–	–	(46,739,888)	7,690,861	(39,049,027)
Total comprehensive income	**–**	**–**	**(46,739,888)**	**52,119,749**	**5,379,861**
Issuance of new shares	5,205,571	191,120,702	–	–	196,326,273
Additional provision related to Audit Quality Review result	–	–	–	(116,670,000)	(116,670,000)
At 31 December 2018 and 1 January 2019	**55,205,582**	**210,393,158**	**169,368,260**	**493,813,082**	**928,780,082**
Profit for the year	–	–	–	64,374,705	64,374,705
Other comprehensive income	–	–	(17,891,475)	–	(17,891,475)
Total comprehensive income	**–**	**–**	**(17,891,475)**	**64,374,705**	**46,483,230**
Reversal of issued shares	(5,204,875)	(191,095,152)	–	–	(196,300,027)
Additional provision related to regulatory requirements (Note 15)	–	–	–	(75,260,890)	(75,260,890)
At 31 December 2019	**50,000,707**	**19,298,006**	**151,476,785**	**482,926,897**	**703,702,395**

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

	Notes	2019 MNT'000	2018 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		64,374,911	44,678,997
Adjustments for:			
Changes in fair value of financial derivatives		(40,597,385)	1,509,223
Hedge ineffectiveness on financial derivatives	**9**	(29,688,815)	–
Valuation gain on investment property	**9**	(783,002)	(1,463,673)
Loss on disposal of investment securities	**9**	5,059,717	3,410,003
Loss on disposal of assets-held-for sale	**9**	626,152	–
Loss on disposal of foreclosed properties, net	**9**	100,204	–
Impairment (reversal)/loss on assets-held-for sale	**9**	–	444,181
Gain on disposal of investment in subsidiaries and associates	**9**	–	(27,318,512)
Gain on disposal of property and equipment	**9**	–	(54,545)
Dividend income	**9**	–	(44,617)
Loss on disposal of investment property	**9**	–	1,806,391
Credit loss allowances on:			
Loans and advances to customers	**10**	41,897,020	127,149,290
Foreclosed properties	**10**	16,599,541	(318,423)
Credit commitment	**10**	(695,052)	2,055,572
Due from other banks and financial institutions	**10**	156,638	274,810
Other assets	**10**	118,780	(72,209)
Investment securities	**10**	10,000	–
Depreciation of property and equipment	**11**	10,315,416	8,155,752
Amortisation of intangible assets	**11**	2,101,911	1,454,856
Depreciation of rights-of-use assets	**11**	3,930,742	–
Property and equipment written off	**11**	7,678,098	41,279
Interest expense of borrowed funds		79,305,409	66,005,990
Interest expense of sub-ordinated debts		45,833	–
Interest expense of debt securities issued		144,234,052	136,188,131
Accretion of interest on lease liability		2,135,697	–
Non-cash items arising from financing activities		80,303,860	55,159,118
Operating profit before working capital changes		**387,229,727**	**419,061,614**
Changes in operating assets and liabilities:			
Statutory deposits with BoM		(54,386,227)	(42,412,826)
Due from other banks and financial institutions		(32,498,664)	(70,784,528)
Reverse repurchase agreements		–	–
Loans and advances to customers		(318,684,789)	(562,937,442)
Other assets		(1,428,180)	(50,424,962)
Due to banks		7,024,802	(62,839,900)
Repurchase agreements		–	(65,053,849)
Due to customers		221,742,212	457,183,087
Other liabilities		457,873,252	(5,209,067)
Cash generated from operations		**666,872,133**	**16,582,127**
Dividend received		–	44,617
Income taxes paid		(206)	(250,109)
Interest portion of the lease liability paid		(2,135,697)	–
Interest paid on borrowed funds		(81,644,198)	(73,388,356)
Interest paid on debt securities issued		(144,596,808)	(135,448,079)
Net cash flows generated from/(used in) operating activities		**438,495,224**	**(192,459,800)**

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of cash flows (contd.)

For the year ended 31 December 2019

CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial investments		(212,772,725)	(298,093,495)
Proceeds from disposal of financial investments		267,667,416	333,395,424
Proceeds from disposal of foreclosed properties		2,834,910	468,726
Proceeds from disposal of assets-for-sale		4,465,295	–
Proceeds from disposal of investment properties		–	11,494,169
Proceeds from disposal of investment in subsidiaries and associates		–	10,126,563
Proceeds from disposal of property and equipment		–	54,545
Purchase of property and equipment	**21**	(38,581,897)	(66,993,118)
Purchase of intangible assets	**23**	(4,858,940)	(1,644,483)
Net cash flows generated from/(used in) investing activities		**18,754,059**	**(11,191,669)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from drawdown of borrowed funds		384,317,370	802,430,368
Repayment of borrowed funds		(625,683,787)	(939,823,336)
Proceeds from debt securities		2,400,876	–
Proceeds from issuance of sub-ordinated debts		150,000,224	–
Proceeds from/(payment for reversal of) issuance of shares	**31**	(196,300,027)	196,326,273
Payment of principal portion of lease liabilities		(3,057,043)	–
Net cash flows (used in)/generated from financing activities		**(288,322,387)**	**58,933,305**
Net increase/(decrease) in cash and cash equivalents		**168,926,896**	**(144,718,164)**
Cash and cash equivalents brought forward	**33**	1,257,418,694	1,402,136,858
Cash and cash equivalents carried forward	**33**	**1,426,345,590**	**1,257,418,694**
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(514,345,092)	(467,418,588)
Interest received		597,185,752	622,949,651
NON-CASH ACTIVITIES			
Additions to right-of-use assets and lease liabilities	**22**	1,043,140	–
Transfers from property and equipment to intangible assets	**21,23**	337,179	–
Transfers from assets-held-for sale to foreclosed properties		59,722,713	–
Property and equipment revaluation		–	6,908,433
Additions to property and equipment		–	7,682,848
Transfers from foreclosed properties to assets-held-for sale		–	65,313,807

Reconciliation of changes in liabilities arising from financing activities:

	Lease liabilities MNT'000
At 31 December 2018	–
Effect of adoption of IFRS 16 (Note 3)	15,605,301
At 1 January 2019	**15,605,301**
Non-cash additions	1,043,140
Interest expense during the year	2,135,697
Interest portion of the lease liabilities paid	(2,135,697)
Principal portion of lease liabilities paid	(3,057,043)
At 31 December 2019	**13,591,398**

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

Reconciliation of changes in liabilities arising from financing activities (contd.)

	Borrowed funds MNT'000	Sub-ordinated debts funds MNT'000	Debt securities issued MNT'000
At 1 January 2018	**1,080,100,382**	**–**	**1,358,023,425**
New disbursement	802,430,368	–	–
Repayment	(939,823,336)	–	–
Interest repayment	(73,388,356)	–	(135,448,079)
Net repayment	(210,781,324)	–	(135,448,079)
Deferral disbursement	(15,014,381)	–	–
Deferral amortisation	9,929,954	–	8,912,293
Foreign exchange movement	51,087,538		108,138,714
Non-cash items arising from financing activities	46,003,111	–	117,051,007
Interest expense accrued	66,005,990	–	136,188,131
At 31 December 2018 and 1 January 2019	**981,328,159**	**–**	**1,475,814,484**
New disbursement	384,317,370	150,000,224	2,400,876
Repayment	(625,683,787)	–	–
Interest repayment	(81,644,198)	–	(144,596,808)
Net repayment	(323,010,615)	150,000,224	(142,195,932)
Deferral disbursement	(2,977,663)	–	–
Deferral amortisation	7,529,610	–	12,474,112
Foreign exchange movement	17,115,807	–	46,161,994
Non-cash items arising from financing activities	21,667,754	–	58,636,106
Interest expense accrued	79,305,409	45,833	144,234,052
At 31 December 2019	**759,290,707**	**150,046,057**	**1,536,488,710**

1. Corporate information

Trade and Development Bank of Mongolia LLC (the "Bank") was incorporated under Mongolian law on 19 October 1990 and is engaged in the business of providing banking and financial services pursuant to License No. 8 issued by the Bank of Mongolia ("BoM") under the first Banking sector supervision act in 1993.

The Bank is a limited liability company incorporated and domiciled in Mongolia. Its registered office is at Trade and Development Bank of Mongolia building, Peace Avenue 19, Sukhbaatar district, 1st khoroo, Ulaanbaatar 14210, Mongolia.

The Bank is 65.82% owned by Globull Investment and Development SCA ("Globull"), which is incorporated in Luxembourg. Globull is wholly owned by US Global Investment LLC ("US Global"), which is incorporated in the United States of America.

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with the resolution of the board of directors on 07 January 2021.

2. Basis of preparation

These financial statements have been prepared and presented according to the Bank's accounting policies, which are formulated in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), except for the adoption of IFRS 9 "Financial Instruments", and that the Bank continues to apply the modifications of the Bank of Mongolia ("BoM") provisioning guidelines for the impairment of financial assets. The adoption of IFRS 9 "Financial Instruments" has been deferred by BoM.

The major items that departed from IFRS include the following and the details are included in the corresponding accounting policy notes:

- Impairment provision for financial assets including loans and receivables, letters of credit, unused credit commitments, unfunded syndicated, foreclosed properties and repossessed assets
- Classification of financial assets (amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL)).

The financial statements of the Bank have been prepared on a historical cost basis, except for derivative financial instruments, available-for-sale financial assets measured at fair value, buildings and land that are measured at fair value subsequent to its acquisition, investment property that is measured at fair value, and precious metal that is 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.

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 reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 38.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when 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 assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss and other comprehensive income ("OCI") unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

3. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective as of 1 January 2019. The Bank has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Bank's financial statements.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2019, unless otherwise stated. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16-Leases

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

3. Changes in accounting policies and disclosures (contd.)

IFRS 16-Leases (contd.)

The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases').

The Bank has lease contracts for certain of its branch office spaces. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as operating lease. In a lease classified as operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases, except for short-term leases. The standard provides specific transition requirements and practical expedients, which has been applied by the Bank.

Leases previously accounted for as finance leases

The Bank did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of -use assets of MNT 15,605,301 thousand were recognised and presented separately in the statement of financial position. This does not include the lease assets recognised previously under finance leases of MNT 1,571,172 thousand which remain to be disclosed within Property and equipment.
- Additional lease liabilities of MNT 15,605,301 thousand were recognised and presented separately in the statement of financial position.
- The adoption of IFRS 16 had no impact on the Bank's retained earnings and no material impact on its capital adequacy ratios.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	**MNT'000**
Operating lease commitments as at 31 December 2018	6,142,131
Weighted average incremental borrowing rate as at 1 January 2019	15.8%
Discounted operating lease commitments as at 1 January 2019	5,120,453
Less:	
Commitments relating to short-term leases	(188,548)
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	10,673,396
Lease liabilities as at 1 January 2019	**15,605,301**

3. Changes in accounting policies and disclosures (contd.)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The interpretation did not have an impact on the financial statement of the Bank.

Annual Improvements 2015-2017 Cycle

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Bank have not declared any dividends in the current year, and as Bank’s current practice is in line with these amendments, they had no impact on the financial statements of the Bank.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Bank’s current practice is in line with these amendments, they had no impact on the financial statements of the Bank.

Standards issued but not yet effective

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

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4). IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. IFRS 17 is not expected to have a significant impact on Bank’s financial statements.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

3. Changes in accounting policies and disclosures (contd.)

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments to the definition of material is not expected to have a significant impact on the Bank's financial statements.

4. Summary of significant accounting policies

Foreign currency translation

The financial statements are presented in Mongolian Togrog ("MNT"), which is also the Banks functional currency. 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 from settlement or translation of monetary items are taken to the profit or loss.

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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Financial instruments – initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank become 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.

Initial recognition of financial instruments

Financial instruments are recognised initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except in the case of financial assets and financial liabilities at fair value through profit or loss ("FVPL"), includes transaction cost.

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, cross currency swaps and forward foreign exchange contracts on interest rates and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are included in other income unless hedge accounting is applied.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if they meet the definition of a derivative (as defined above), their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

4. Summary of significant accounting policies (contd.)

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

Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions. The Bank has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in OCI in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement, in other operating 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 effective interest rate ("EIR") which takes into account any discount/premium and qualifying transaction costs that are an integral part of the instrument's yield.

Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'impairment losses on financial investments' and removed from the available-for-sale reserve.

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 any impairment loss. 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 profit or loss. The losses arising from impairment of such investments are recognised in the 'Credit loss expense'.

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 during the following two years.

Due from banks and loans and advances to customers

This account includes 'Due from banks and other financial institutions' 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 fair value through profit or loss;
- Those that the Bank, upon initial recognition, designates as available-for-sale;
- 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 EIR, less any 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 EIR. The amortisation is included in 'Interest and similar income' in profit or loss. The losses arising from impairment are recognised in profit or loss under 'Credit loss expense'.

The Bank may enter into certain lending commitment where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss profit or loss.

Borrowed funds

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

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

A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

4. Summary of significant accounting policies (contd.)

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

Borrowed funds (contd.)

When establishing the accounting treatment of these non-derivative instruments the Bank first establishes whether the instrument is a compound instrument and classifies such instruments or components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32.

The Bank separately recognises the components of a financial instrument that: (a) creates a financial liability for the Bank; and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to its equity and liability components, the equity component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. The value of any derivative features (such as a call options) embedded in the compound financial instrument, other than the equity component (such as an equity conversion options) is included in the liability component. Once the Bank has determined the split between equity and liability, it further evaluates if the liability component has embedded derivatives which would require separation. The Bank only separates the embedded derivatives from the host contract and accounts for them as a derivative when:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms of the embedded derivatives would meet the definition of a derivative
- The hybrid (combined) instrument is not measured at fair value with changes in fair value acquired in profit or loss (i.e., a derivative that is embedded in a financial asset or financial liability at FVPL is not separated)

Due to customers

This includes current, savings, time deposits and bank guarantee fund from customers. After initial measurement, due to customers are subsequently measured at amortised cost using the EIR.

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. The Bank recognises due to customer balances when funds reach the Bank. After initial measurement, due to banks are subsequently measured at amortised cost using the EIR.

'Day 1' profit or loss

When the transaction price is different to the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in profit or loss when the inputs become observable or when the instrument is derecognized.

Reclassification of financial assets

For a financial asset reclassified out of the available-for-sale financial investments category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss.

In rare circumstances, the Bank may reclassify a non-derivative trading asset out of the held-for-trading financial investments category and into the loans and advances category if it meets the definition of loans and advances and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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 during the following two years.

Reclassification is at the election of management and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

4. Summary of significant accounting policies (contd.)

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 statement of profit or loss.

Hedge accounting

The Bank designates certain derivatives (long term currency swaps) as hedges of a particular risk associated with the cash flows of recognized liabilities (foreign currency debt securities issued to the International market).

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction, the cumulative amount recognised in other comprehensive income from the year when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within ‘Repurchase agreements’, reflecting the transaction’s economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within ‘Reverse repurchase agreements’, reflecting the transaction’s economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in ‘Interest and similar income’ and is accrued over the life of the agreement using the EIR.

4. Summary of significant accounting policies (contd.)

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

An analysis of fair values of financial instruments and further details as how they are measured are provided in Note 36.

Impairment of financial assets

The Bank reviews carrying amounts of financial assets at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

Loans and receivables

Loans and receivables are presented net of allowances for un-collectability. Allowances are made against the carrying amount of loans and receivables that are identified as being potentially impaired, based on regular reviews of outstanding balances, to reduce these loans and receivables to their recoverable amount in accordance with BoM Provisioning Guidelines. Increases in the allowance account are recognised in profit or loss. When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off directly.

In accordance with the BoM Provisioning Guidelines, the Bank is required to determine the quality of receivables based on their time factor and qualitative characteristics in classifying them and determining provisions. Such a model classifies the Bank's allowances for loans and receivable losses at the rates of 0.5%, 1% to 5%, 5% to 25%, 15% to 50% and 50% to 100%, based on credit classification categories of performing, special mention, substandard, doubtful and loss, respectively. The Bank does not recognise allowance for the deposit collateralised loans and overnight loans.

Qualitative characteristics taken into consideration for determining credit classification mainly include, but are not limited to, completeness of loan file, economic situation and financial indicators of the borrower, value of the collateral and previous rescheduling of the loan.

In accordance with the BoM Provisioning Guidelines, the Bank is required to determine the quality of off-balance assets and contingent liabilities based on obligor's qualitative characteristics in classifying them and determining provisions. BoM Provisioning Guidelines had set the model of provisioning rate depending on the remaining period to maturity. Such a model classifies the Bank's allowances for off-balance assets and contingent liabilities losses at the rates of 0%, 5%, 25%, 50% and 100% in case of remaining period less than 1 year, based on credit classification categories of performing, special mention, substandard, doubtful and loss, respectively. While in case of remaining period more than 1 year, it classifies the Bank's allowances for off-balance assets and contingent liabilities losses at the rates of 0%, 1%, 15%, 35% and 75%, based on credit classification categories of performing, in arrears, substandard, doubtful and loss, respectively.

4. Summary of significant accounting policies (contd.)

Impairment of financial assets (contd.)

Loans and receivables (contd.)

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.Available-for-sale financial assets

For available-for-sale financial investments, the Bank assesses at each reporting 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 such as:

Observable data regarding a decline in estimated future cash-flows and or a decline in underlying collateral (in the case of asset backed securities when the Bank expects to recover the outstanding from the sale of the underlying assets) impacting the Bank's ability to recover all cash flows. 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 income statement.

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 income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence includes:

- A 'significant' or 'prolonged' decline in the fair value of the investment below its cost and/or
- Other information about the issuer that may negatively affect an equity issuer's performance

The Bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months.

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 income statement, is removed from equity and recognised in impairment losses on financial investments in the income statement. 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.

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be 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 at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value or fair value less cost to sell for non-financial assets at the repossession date in line with the Bank's policy in accordance with BoM provisioning guidelines.

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.

Interest income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument 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.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded in profit or loss. However, for reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

4. Summary of significant accounting policies (contd.)

Recognition of income and expenses (contd.)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following three categories:

Fee income earned from services that are provided over a certain period of time.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management and advisory fees.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Fee income forming an integral part of the corresponding financial instrument

Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR. The exception is, when it is unlikely that a loan will be draw down, the loan commitment fees are recognised as revenue on expiry.

Fee and commission expense

Fee expense represents administration and fixed fee commission paid to the commercial banks. Fee expense is recognized when actual service has been provided.

Components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents comprises cash on hand, non-restricted current accounts with banks and amounts due from banks or with an original maturity of three months or less.

Property and equipment

Property and equipment are initially recorded at cost, except for building and land. Such cost includes the cost of replacing part of the property and equipment when the costs are incurred if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of profit or loss and other comprehensive income as incurred.

Subsequent to initial recognition, items of property and equipment, except for building and land are subsequently stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Buildings and land are measured at fair value. Valuations are undertaken on a three to five year cycle. Between valuation dates, buildings are depreciated to the extent that reflect erosion of value. Any revaluation reserve is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss, in which case, the increase is recognised in the statement of profit or loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing reserve on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction in progress is stated at cost which includes cost of construction equipment and other costs less any impairment in value. Construction in progress is not depreciated nor depleted until such time as the relevant assets are completed and put into operational use.

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 as follows:

Type of Asset	Estimated Useful Life in Years
Buildings	40 - 60
Furniture, equipment and vehicles	3 - 10

Items of property and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of profit or loss when the asset is derecognised.

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

Land use rights held by the Bank are treated as finance leases and are initially recognized as assets of the Bank at their fair value at the inception of the lease. Land law of Mongolia came into force on 1 January 2003 and provides a legal basis for Mongolian entities to hold land use rights.

The land use rights acquired from individuals or entities are initially recognized at their fair values at the date of acquisition. The Bank pays annual lease payments to the Government upon acquisition of the land use rights and the lease payments are insignificant.

The nature of the renewal process of the land use right together with the low renewal payment and low annual use payment has led to the determination that such rights indicate the land is non-depreciable.

Leases (policy applicable before 1 January 2019)

Bank as a lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they incurred.

Leases (policy applicable as of 1 January 2019)

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

4. Summary of significant accounting policies (contd.)

Leases (policy applicable as of 1 January 2019) (contd.)

Lease liabilities (contd.)

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases

The Bank applies the short-term lease recognition exemption to its short-term leases of certain office spaces (i.e., those leases that have a lease term of 12 months or less from the commencement date or spaces for ATMs). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Bank included the renewal period as part of the lease term for leased office spaces due to the significance of these assets to its branch operations.

Intangible assets

The Bank's intangible assets include the value of computer software.

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 profit or loss 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 live of three to ten years.

Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Bank considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

4. Summary of significant accounting policies (contd.)

Non-current assets held for sale

The Bank classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Impairment of non–financial assets

The Bank assess 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 estimate 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 estimate 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 profit or loss and other comprehensive income.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in profit or loss.

Employee benefits

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.

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.

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 profit or loss net of any reimbursement.

4. Summary of significant accounting policies (contd.)

Segment reporting

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

Taxes

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 statement of financial position date.

Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except for:

- 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 taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of 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 carry forward of 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 taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 assets are reassessed at each statement of financial position 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 assets 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 statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets 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.

Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium

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

Retained earnings

Retained earnings represent accumulated profits or losses, reduced by dividend declarations. These may also include prior period adjustments and effects of changes in accounting policies.

4. Summary of significant accounting policies (contd.)

Equity (contd.)

Revaluation reserve

The revaluation reserve is used to record the reserve arising from the revaluation of the Bank's land and buildings.

Cash flow hedge reserve

The cash flow hedge reserve comprises of the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Available-for-sale investment revaluation reserve

Available-for-sale investment revaluation reserve comprises of the cumulative net change in the fair value of the available-for-sale financial instrument.

Transactions with related parties

A related party is a person or entity that is related to the Bank:

A person or a close member of that person's family is related to a Bank if that person:
- has control or joint control of the Bank;
- has significant influence over the Bank; or
- is a member of the key management personnel of the Bank or of a parent of the Bank.

An entity is related to a Bank if any of the following conditions applies:
- The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank. If the Bank is itself such a plan, the sponsoring employers are also related to the Bank.
- The entity is controlled or jointly controlled by a person who has control or joint control of the Bank.
- A person who has control or joint control of the Bank has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

All material transactions and balances with the related parties are disclosed in the relevant notes to financial statements and the detail is presented in Note 37.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

5. Significant accounting judgments, estimates and assumptions (contd.)

Impairment losses on loans and advances to customers

The Bank reviews its individually significant loans and advances to customers every month including the date of financial position to assess the quality of the borrower and to determine whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income. In particular, management judgment is required in the assessment and estimation of the borrowers' current economic and financial position including the ability of borrowers' repayment, based on which the borrower is rated, and respective provision rate is determined. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The impairment loss on loans and advances to customers is recorded in the statement of profit or loss and disclosed in more detail in Note 10 and Note 17.

Revaluation of properties

The Bank carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. In addition, the Bank measures its land and buildings at revalued amounts, with changes in fair value being recognised in OCI. The Bank engages an independent valuation specialist to assess fair value of both investment properties and the buildings and land lease rights. Properties were valued principally by reference to market-based evidence, using comparable prices and income approaches adjusted for specific market factors such as nature, location and condition of the buildings. As at 31 December 2019, the investment properties were revalued by independent appraiser and respective valuation gains were recognised in the statements of profit or loss. The management has assessed that the fair values of buildings has not changed significantly from the carrying amounts.

This valuation assessment requires exercise of judgment from management and independent valuer based on their experience of those properties as well as other assumptions described in Note 36.

Hedge accounting

The Bank designates certain derivatives (long-term currency swaps) as hedges of a particular risk associated with the cash flows of recognized liabilities (foreign currency debt securities issued and traded in public market).

Starting from May 2015, the Bank participated in long term swap program with the central bank and respectively has started applying hedge accounting. The Bank has agreed long term USD/MNT swap with maturity of 5 years. There is no readily available market information on pricing of such long-term instruments.

6. Interest and similar income

	2019 MNT'000	**2018 MNT'000**
Loans and advances to customers	438,487,359	396,982,265
Investment securities	236,316,801	250,608,095
Cash and balances with BoM	13,467,842	9,208,692
Due from banks and financial institutions	12,196,782	7,309,389
Reverse repurchase agreements	1,140,480	401,278
	701,609,264	**664,509,719**

In 2019, interest income from investment securities include interest income from government bonds amounting to MNT 160,505,875 thousand (2018: MNT 168,669,461 thousand), which are tax exempt incomes.

7. Interest and similar expenses

	2019 MNT'000	**2018 MNT'000**
Due to customers	254,928,316	236,208,294
Debt securities issued	156,708,164	145,100,424
Borrowed funds	86,835,019	75,935,944
Due to banks and financial institutions	15,608,004	10,492,936
Repurchase agreements	5,438,004	8,558,099
Lease liability (Note 22)	2,135,697	–
Sub-ordinated debt	45,833	–
	521,699,037	**476,295,697**

8. Net fees and commission income

	2019 MNT'000	2018 MNT'000
Fees and commission income		
Card service	25,526,257	21,506,676
Loan related service	13,303,670	15,925,893
Wire transfer	11,154,328	8,641,031
Mobile and internet-banking service	3,192,494	2,597,687
Others	2,265,450	1,692,883
	55,442,199	**50,364,170**
Fees and commission expenses		
Card service charges	12,473,227	9,688,829
Others	2,596,342	2,732,960
	15,069,569	**12,421,789**
Net fees and commission income	**40,372,630**	**37,942,381**

9. Other operating (expenses)/income

	2019 MNT'000	2018 MNT'000
Reversal resulted from hedge ineffectiveness (Note 16)	29,688,815	–
Precious metal trading gain/(loss), net	2,122,005	(1,438,691)
Foreign exchange gain, net	2,016,947	15,785,385
Unrealised gain on fair valuation of cross currency interest rate swaps	1,500,797	–
Valuation gain on investment property (Note 19)	783,002	1,463,673
Impairment loss on assets-held-for sale, net (Note 20)	–	(444,181)
Loss on disposal of securities, net	(5,059,717)	(3,410,003)
Loss on disposal of asset-held-for sale, net (Note 20)	(626,152)	–
Loss on disposal of foreclosed properties, net	(100,204)	–
Gain on disposal of investment in subsidiaries and associates	–	27,318,512
Gain on disposal of property and equipment, net	–	54,545
Dividend income	–	44,617
Loss on disposal of investment property	–	(1,806,391)
Others	1,741,962	765,184
	32,067,455	**38,332,650**

10. Credit loss expenses

	2019 MNT'000	2018 MNT'000
Loans and advances to customers (Note 17)	41,897,020	127,149,290
Foreclosed properties (Note 18)	16,599,541	(318,423)
Due from other banks and financial institutions (Note 14)	156,638	274,810
Other assets (Note 18)	118,780	(72,209)
Investment securities	10,000	–
Credit commitment (Note 34)	(695,052)	2,055,572
	58,086,927	**129,089,040**

11. Operating expenses

	2019 MNT'000	2018 MNT'000
Personnel expense	46,915,912	38,541,979
Advertising and public relations	12,070,066	8,256,981
Professional services fee	10,553,627	3,191,040
Depreciation on property and equipment (Note 21)	10,315,416	8,155,752
Insurance	9,364,230	8,537,817
Write-off of property and equipment (Note 21)	7,678,098	41,279
IT maintenance	4,220,135	3,249,523
Depreciation of right-of-use assets (Note 22)	3,930,742	–
Repairs and maintenance	3,699,082	1,485,390
Technical assistance and foreign bank remittance fee	3,390,193	1,900,673
Amortisation of intangible asset (Note 23)	2,101,911	1,454,856
Business travel expenses	2,026,543	1,540,452
Stationery and supplies	1,870,499	1,769,957
Communication	1,724,410	1,475,468
Reception and entertainment	1,631,407	1,135,348
Utility expenses	955,906	834,189
Rental expense	796,128	5,043,253
Cash handling	770,784	656,322
Transportation	593,576	488,900
Training expenses	367,493	209,658
Security	283,230	258,266
Others	4,629,086	2,493,913
	129,888,474	**90,721,016**

12. Income taxes

12.1 Income tax expenses

The income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 MNT'000	2018 MNT'000
Current tax:		
Current income tax	206	250,109

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% (2018: 10%) for the first MNT 3 billion (2018: MNT 3 billion) of taxable income and 25% (2018: 25%) on the excess of taxable income over MNT 3 billion (2018: 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 2019 and 2018 is as follows:

	2019 MNT'000	2018 MNT'000
Profit before income tax	64,374,911	44,678,997
Tax at statutory rate of 25% (2018: 25%)	16,093,728	11,169,749
Effect of expenses not deductible for income tax purpose	27,247,149	30,878,948
Unrecognised deferred tax asset	609,759	3,471,570
Special tax rate	206	250,109
Tax rate difference	(2,139,481)	(450,000)
Effect of non-taxable income	(1,684,686)	(2,902,902)
Effect of income exempted from taxation	(40,126,469)	(42,167,365)
Tax expense	**206**	**250,109**

12. Income taxes (contd.)

12.1 Income tax expenses (contd.)

As at 31 December 2019, the Bank has available tax losses of MNT 40,813,295 thousand (2018: MNT 34,715,701 thousand) that are available to offset against future taxable profits for the next two financial years. The annual amount of tax loss deductible from taxable income is limited to 50% of the taxable income in a given year.

Deferred tax assets arising from tax losses are not recognised as the Bank is uncertain whether there would be sufficient taxable profit in the next two years available against which the tax losses carried forward can be utilised.

The effective income tax rate for 2019 is 0% (2018: 0.6%).

12.2 Income tax liabilities

	2019 MNT'000	2018 MNT'000
Income tax liability as at 1 January	–	–
Income tax expense for the year	206	250,109
Tax paid	(206)	(250,109)
Income tax liability as at 31 December	**–**	**–**

13. Cash and balances with Bank of Mongolia

	2019 MNT'000	2018 MNT'000
Cash on hand	77,491,509	77,762,969
Current accounts with BoM	565,692,561	937,195,273
Deposits with BoM	360,894,217	–
Overnight deposit with BoM	92,022,685	–
	1,096,100,972	**1,014,958,242**

Current accounts with BoM are maintained in accordance with BoM regulations. The balances maintained with BoM are determined at not less than 10.5% of customer deposits for local currency and not less than 12.0% of customer deposits for foreign currency based on average balance of two weeks. As at 31 December 2019, the average reserves required by BoM for that period of two weeks were MNT 215,545,776 thousand (2018: MNT 203,003,055 thousand) for local currency and MNT 249,651,434 thousand (2018: MNT 207,807,926 thousand) for foreign currency maintained on current accounts with BoM.

14. Due from other banks and financial institutions

	2019 MNT'000	2018 MNT'000
Placement with local banks and financial institutions*	165,119,723	64,260,904
Current accounts with foreign banks and financial institutions	120,055,248	199,551,533
Placement with foreign bank as cash collateral	15,250,230	14,660,079
Current accounts with local banks and financial institutions	956,071	2,124,491
	301,381,272	**280,597,007**

*Included in the placements with local banks and financial institutions as at 31 December 2019 is a cash guarantee held with Ulaanbaatar City Bank under syndicated risk participation agreement of MNT 75,040,000 thousand and USD 4,595 thousand (2018: MNT 42,839,150 thousand and USD 4,923 thousand). The funds have a respective allowance for losses of MNT 438,008 thousand as at 31 December 2019 (2018: MNT 279,248 thousand) with allowance charge of MNT 156,638 thousand (2018: MNT 274,810 thousand) (Note 10).

15. Financial investments

	2019 MNT'000	2018 MNT'000
Available-for-sale investment securities		
Unquoted BoM treasury bills (a)	598,900,912	443,184,145
Residential mortgage-backed securities (b)	97,023,096	103,981,319
Equity securities, at fair value (c)	53,412,762	51,388,358
Quoted government bonds (d)	29,262,345	25,357,882
Unquoted equity securities, at cost (e)	3,876,615	3,552,205
Repossessed assets (f)	–	75,260,890
	782,475,730	**702,724,799**
Held-to-maturity investment securities		
Government bonds (g)	984,163,506	1,033,907,549
Development Bank of Mongolia bonds (h)	65,977,534	65,974,795
	1,050,141,040	**1,099,882,344**
	1,832,616,770	**1,802,607,143**

(a) Unquoted BoM treasury bills are purchased either at par, premium or discount. The premium/discount is amortised on a straight-line basis over the remaining maturity of the bill.

(b) Residential mortgage-backed securities (RMBSs) represent Junior tranche of an interest-bearing long-term securities issued by MIK, which per the Securities Law of Mongolia, are required to be held by commercial banks for at least 3 years (see Note 17).

(c) Equity securities at fair value include investment of 9.99% of equity stakes in MIK Holding JSC (MIK), which the management assessed the Bank has no significant influence and therefore disclosed as available-for-sale investment. However, the Bank's ultimate shareholder may have significant influence over MIK in aggregate through other companies.

(d) Quoted government bonds represent investment in government bonds listed on foreign market.

(e) Unquoted equity securities represent investments made in unquoted private companies. Investments in unquoted equities are recorded at cost as management determined the fair value cannot be measured reliably. The variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be insignificant. There is no market for these investments and the Bank does not intend to dispose of these investments in the foreseeable future.

(f) On 26 December 2016, the Bank has obtained the shares of the Mongolian National Rare Earth Corporation LLC (MNREC) in accordance with the terms and conditions of the loan agreement made between the Bank and the shareholders of MNREC, which stipulate that MNREC transfers the ownership of its shares to the Bank in the event of default on the loan. The shares were classified as available-for-sale investment in accordance with the BoM regulation and were carried at cost. The Bank recognised MNT 16,997,000 thousand of impairment losses on the repossessed assets in 2018 as a result of Assets Quality Review conducted by the BoM. In 2019, the Bank further recognised MNT 75,260,890 thousand of loss allowance as directed by BoM and has fully written off the asset using its allowance in accordance with Board of Directors' decision.

(g) Government bonds are unquoted interest-bearing bonds issued by the Government.

(h) Development Bank of Mongolia (DBM) bonds are unquoted interest-bearing long-term bonds issued by DBM under the ASEM project.

16. Derivative financial instruments

The table below shows the fair values 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.

	At 31 December 2019			At 31 December 2018		
	Notional	Fair value		Notional	Fair value	
	amount MNT'000	Assets MNT'000	Liability MNT'000	amount MNT'000	Assets MNT'000	Liability MNT'000
Derivatives held for trading						
Cross-currency interest rate swaps (a)	777,151,290	77,925,340	76,226,529	–	–	–
Forwards	78,162,784	1,930,305	–	24,667,916	–	1,515,973
	855,314,074	79,855,645	76,226,529	24,667,916	–	1,515,973
Derivatives used for cash flow hedges						
Currency swap (b)	971,940,000	415,006,111	–	971,940,000	379,263,246	–
	1,827,254,074	**494,861,756**	**76,226,529**	**996,607,916**	**379,263,246**	**1,515,973**

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.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. The Bank's risk management strategy and how it is applied to manage its risks is disclosed in Note 35. The effects of respective hedge accounting on financial position and performance disclosed in Note 9 and Note 31, and below.

(a) On 28 March 2019, the Bank entered into cross-currency interest rate swap agreements with MIK (derivative financial liability) and entered into respective offsetting position with BoM (derivative financial asset) on the same day, whereby the Bank has acted as an intermediary institution. At initiation, the Bank received USD funds from MIK and paid MNT funds at the spot rate, simultaneous to which the Bank has paid USD funds to BoM and received MNT funds at the spot rate. During the term of the agreement with BoM, the Bank receives interest on USD funds at LIBOR plus certain margin and pays interest on MNT funds at the central bank policy rate. Whereas during the term of the agreement with MIK, the Bank pays interest on USD funds at rate equal to the rate received from BoM and receives interest on MNT funds at central bank policy rate plus 0.1%. At the end of the term of both agreements, the Bank shall pay or receive the difference incurred by the exchange rates at the end of the term.

(b) The currency swap agreements are designated as hedging instruments and are designed to hedge the risk of variability of cash flows denominated in USD from the long-term debt securities issued and traded in international market. This is regular long-term currency swap agreement whereby at the initiation, Bank pays USD funds and receives MNT funds at the spot rate, and subsequently upon maturity Bank receives USD funds and pays MNT funds at agreed forward rate.

The USD denominated long-term debt securities issued and traded in international market designated as hedged item have a notional amount of USD 500 million as of 31 December 2019 with annual fixed coupon rates of 9.375% and is due on 19 May 2020 (Note 29).

Cash flow hedges

Hedge ineffectiveness can arise from:

- The timing difference of the cash flows of the hedging instrument and hedged item
- The counterparty's credit risk impact on the fair values
- Difference between agreed forward exchange rate and market forward exchange rate as of hedge accounting inception date

16. Derivative financial instruments (contd.)

Cash flow hedges (contd.)

The Bank's financial liabilities designated as hedged items in continuing cash flow hedge relationships:

Long term USD debt securities issued	Change in fair value of hedged item in the year used for ineffectiveness measurement MNT'000	Cash flow hedge reserve - continuing hedges MNT'000 (Note 31)	Line item in the statement of financial position
At 31 December 2019	45,300,000	–	Debt securities issued
At 31 December 2018	107,895,000	29,398,246	Debt securities issued

The below table sets out the outcome of the Bank's hedging strategy, in particular, the notional and the fair values of the derivatives the Bank uses as hedging instruments and their changes in fair values used for measuring hedge effectiveness separately showing the effective and ineffective portions:

			Change in fair value of hedged instrument in the year used for ineffectiveness measurement			
	Notional amount MNT'000	Fair value of assets MNT'000	In total MNT'000	Effective portion recognised in OCI (Note 31) MNT'000	Hedge ineffectiveness recognised in the profit or loss (Note 9) MNT'000	Reclassified from Cash flow hedge reserves to profit or loss (Note 31) MNT'000
Currency swap						
At 31 December 2019	971,940,000	415,006,111	35,742,865	6,054,050	29,688,815	(35,452,296)
At 31 December 2018	971,940,000	379,263,246	64,921,565	64,921,565	–	(107,895,000)

17. Loans and advances to customers

	2019 MNT'000	2018 MNT'000
Corporate	2,953,068,818	2,774,098,926
Retail loan	574,038,238	532,572,486
Small and Medium-sized enterprise (SME)	373,363,628	322,400,968
Loans to executives, directors and staffs	33,885,312	31,902,581
Gross loans and advances to customers	**3,934,355,996**	**3,660,974,961**
Allowance for impairment losses	(431,204,350)	(434,611,084)
Net loans and advances to customers	**3,503,151,646**	**3,226,363,877**

Transferred financial assets that are derecognised in their entirety

During the year (on 4 July, 1 August, 23 December 2019) the Bank sold 100% of the rights of the cash flows arising from portfolios of fixed rate mortgage loans to wholly owned special purpose companies of MIK in exchange for RMBS. The Bank derecognised the loan portfolio and recognised the Senior RMBS and Junior RMBS received as financial assets (see Note 15).

Transferred financial assets that are not derecognised in their entirety

Furthermore, the Bank participated in monetisation transactions with MIK in 2019 for selling of loan pools collateralised by immovable assets with recourse. The Bank sold MNT 426,310 million (2018: MNT 309.7 million) of loans to MIK, for which the Bank received funding bearing interest rate of 7.75%-16% (2018: 7.75%-14.75%) p.a. The Bank retained all the risks and rewards related to the loans sold to MIK within these transactions. Therefore, the assets do not qualify for derecognition. The assets not qualified for derecognition amounted to MNT 435,051 million as at 31 December 2019 (2018: MNT 4,185 million) (Note 30).

17. Loans and advances to customers (contd.)

Troubled Asset Relief Program

In June 2016, the Bank entered into an agreement with BoM under Troubled Asset Relief Program ("TARP"), under which certain specific borrowers were to be supported by the financing from BoM. In accordance with the agreement under TARP, the Bank has issued MNT 160 billion of debt securities (Note 29), which were purchased and fully paid by BoM, ultimately providing the financing for the specific borrowers. In addition, under the TARP agreement the loan obligations were to be replaced by the obligations of the new debt security agreement, and the provisioning rates for the specific borrowers are specifically agreed with BoM

Impairment allowance for loans and advances to customers

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

	2019 MNT'000	2018 MNT'000
At 1 January	434,611,084	267,932,462
Net charge for the year (Note 10)	41,897,020	127,149,290
Additional provision related to Audit Quality Review result	–	99,673,000
Foreign exchange difference	470,670	–
Write-off during the year	(45,774,424)	(60,143,668)
At 31 December	**431,204,350**	**434,611,084**

The fair value of the collateral that the Bank holds relating to loans determined to be delinquent or individually impaired as at 31 December 2019 are presented in 'Collateral and other credit enhancement' under Note 35. These values are estimated by management based on the latest available information.

Impairment of loans receivables from Mongolian Copper Corporation LLC and Kanetic Pte Ltd

As at the reporting date, the Bank has total outstanding loan receivables from Mongolian Copper Corporation LLC ("MCC") of MNT 143.9 billion (2018: MNT 165.9 billion) and Kanetic Pte Ltd ("Kanetic") amounting to MNT 159.3 billion (2018: MNT 165 billion) excluding accrued interests. The recoverability of these loans are highly depend on the favourable outcome of the ongoing discussion of MCC and the Government of Mongolia regarding the takeover of the 49% equity interest in Erdenet Mining Corporation LLC. As of 31 December 2019, the Bank has provided allowance for impairment of MNT 50.4 billion (2018: MNT 41.5 billion) and MNT 55.8 billion (2018: MNT 1.7 billion) against the loans receivables from MCC and Kanetic, respectively.

18. Other assets

	2019 MNT'000	2018 MNT'000
Prepaid expenses and advances	19,005,651	16,920,892
Settlement receivables	5,699,551	9,800,997
Deferred employee benefit	3,719,276	3,101,478
Consumables and other office supplies	1,726,150	1,084,523
Precious metals	307,837	54,974
Prepayment made for construction	25,440,087	25,440,087
Other receivables	5,888,742	3,833,933
Less: Allowance for other receivables	(270,511)	(724,883)
	61,516,783	**59,512,001**
Foreclosed properties	69,676,287	13,084,423
Less: Allowance for repossessed collaterals	(27,404,986)	(10,361,264)
	42,271,301	**2,723,159**
Total other assets	**103,788,084**	**62,235,160**

Included in prepaid expenses and advances are guarantee deposits held for international card payment organisations amounting to MNT 10,128 million (2018: MNT 9,660 million).

18. Other assets (contd.)

Deferred employee benefit represents outstanding fair value adjustments at initial recognition. The Bank provides loans to its employees at preferential rates. In accordance with IFRS, fair value adjustments at initial recognition are recognised as deferred employee benefits and are amortised according to the terms of the loan.

Prepayment made for construction represents advance payments made to Riverstone Properties LLC ("Riverstone") to construct the Bank's new office building. Total of 48% of the total contract fee has been prepaid according to the construction agreement, from which 88% of the prepayment has been recorded as construction-in-progress (Note 21) according to the actual construction progress. The construction is estimated to be complete by 2022.

Foreclosed properties represent real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of these assets in the foreseeable future.

A reconciliation of the allowance for impairment losses is as follows:

	2019 MNT'000	2018 MNT'000
Impairment allowance on other receivables		
At 1 January	724,883	795,115
Charge for the year	186,179	245,069
Reversal	(67,399)	(317,278)
Net charge for the year (Note 10)	118,780	(72,209)
Write-off during the year	(571,419)	–
Foreign exchange difference	(1,733)	1,977
At 31 December	**270,511**	**724,883**
Impairment allowance on foreclosed properties		
At 1 January	10,361,264	10,679,687
Charge for the year	19,854,188	1,087,399
Reversal	(3,254,647)	(1,405,822)
Net charge for the year (Note 10)	16,599,541	(318,423)
Transfer (Note 20)	444,181	–
At 31 December	**27,404,986**	**10,361,264**

19. Investment properties

	2019 MNT'000	2018 MNT'000
At 1 January	80,114,526	91,951,413
Disposals	–	(13,300,560)
Change in fair value (Note 9)	783,002	1,463,673
At 31 December	**80,897,528**	**80,114,526**

The Bank's investment property consists of office spaces. As at 31 December 2019 and 2018, the fair values of the properties are based on valuations performed by independent professional valuation company.

Fair value hierarchy disclosures and valuation techniques used in measuring the fair value, including the description of significant inputs used for investment properties are presented in Note 36.

20. Non-current assets held for sale

	2019 MNT'000	2018 MNT'000
Buildings and real estate, at acquisition cost	–	65,313,807
Accumulated impairment losses	–	(444,181)
	–	**64,869,626**

20. Non-current assets held for sale (contd.)

A reconciliation of the movement in impairment losses for investment properties is as follows:

	2019 MNT'000	2018 MNT'000
At 1 January	444,181	–
Impairment loss	–	444,181
Net charge (Note 9)	–	444,181
Transfer (Note 18)	(444,181)	–
At 31 December	**–**	**444,181**

During the year, the Bank had sold some of its buildings and real estate held for sale and reclassified remaining assets into the foreclosed property. The Bank had incurred net loss on disposal of MNT 626,152 thousand on the sale (see Note 9).

21. Property and equipment

	Buildings and land MNT'000	Office equipment and vehicles MNT'000	Computers and others MNT'000	Computer Lease MNT'000	Construction-in-progress MNT'000	Total MNT'000
At 31 December 2019						
At cost/valuation						
At 1 January 2019	172,858,275	20,394,732	23,808,284	5,559,345	172,529,071	395,149,707
Additions	2,298,000	2,182,946	10,240,135	1,280,986	22,579,830	38,581,897
Write-offs	–	(7,739,667)	(761,911)	(254,283)	–	(8,755,861)
Transfers	–	57,688	(394,867)	–	–	(337,179)
At 31 December 2019	175,156,275	14,895,699	32,891,641	6,586,048	195,108,901	424,638,564
Accumulated depreciation						
At 1 January 2019	1,475,901	5,069,075	12,556,541	3,988,173	–	23,089,690
Charge for the year (Note 11)	3,357,178	1,304,461	4,248,773	1,405,004	–	10,315,416
Write-off	–	(61,915)	(761,594)	(254,254)	–	(1,077,763)
At 31 December 2019	4,833,079	6,311,621	16,043,720	5,138,923	–	32,327,343
Net carrying amount	**170,323,196**	**8,584,078**	**16,847,921**	**1,447,125**	**195,108,901**	**392,311,221**
At 31 December 2018						
At cost/valuation						
At 1 January 2018	168,471,411	10,689,863	21,185,788	5,101,047	117,380,604	322,828,713
Additions	–	10,630,491	8,350,047	546,961	55,148,467	74,675,966
Disposals	–	(339,715)	(4,830,250)	–	–	(5,169,965)
Write-offs	–	(585,907)	(897,301)	(88,663)	–	(1,571,871)
Revaluation	4,386,864	–	–	–	–	4,386,864
At 31 December 2018	172,858,275	20,394,732	23,808,284	5,559,345	172,529,071	395,149,707
Accumulated depreciation						
At 1 January 2018	591,374	4,955,947	15,845,127	2,763,618	–	24,156,066
Charge for the year (Note 11)	3,406,098	998,104	2,438,792	1,312,758	–	8,155,752
Disposals	–	(339,715)	(4,830,250)	–	–	(5,169,965)
Write-offs	–	(545,261)	(897,128)	(88,203)	–	(1,530,592)
Revaluation	(2,521,571)	–	–	–	–	(2,521,571)
At 31 December 2018	1,475,901	5,069,075	12,556,541	3,988,173	–	23,089,690
Net carrying amount	**171,382,374**	**15,325,657**	**11,251,743**	**1,571,172**	**172,529,071**	**372,060,017**

21. Property and equipment (contd.)

Buildings are carried at fair value. Had these buildings been recognised under the cost model as at 31 December 2019, the carrying amount of land and buildings would have been MNT 77,417 million (2018: MNT 76,604 million).

In 2018, the Bank engaged an accredited independent valuer, to determine the fair value of its land and buildings. The fair value is determined based on market comparable approach. Fair value hierarchy disclosures and valuation techniques used in measuring the fair value, including the description of significant inputs used are presented in Note 36.

Construction-in-progress account mainly consists of costs for construction of the Bank's new office building. The Bank made a contract to build its new corporate head office with Riverstone (see Note 18). The building is to be completed in 2022.

22. Right-of-use assets and Lease liabilities

The Bank has lease contracts for branch office spaces used in its operations. These leases on average have lease term of four years. The Bank's obligations under its leases are secured by the lessor's title to the leased assets.

The Bank also has certain leases of office spaces, garages and ATM spaces with lease terms of 12 months or less. The Bank applies the 'short-term lease' recognition exemption for these leases.

Set out below are the carrying amounts of right-of-use assets and lease liabilities and the reconciliation of movements during the year:

	Right-of-use assets MNT'000	Lease liabilities MNT'000
As at 1 January 2019 - Effect of adoption of IFRS 16 (Note 3)	15,605,301	(15,605,301)
Additions	1,043,140	(1,043,140)
Depreciation charge for the year (Note 11)	(3,930,742)	–
Accretion of interest (Note 7)	–	(2,135,697)
Lease payments	–	5,192,740
As at 31 December 2019	**12,717,699**	**(13,591,398)**

The maturity analysis of lease liabilities are disclosed in Note 38.

The Bank recognised rent expense from short-term leases of MNT 796,128 thousand for the year ended 31 December 2019. Also included within Operating expenses are variable lease payments that do not depend on an index or rate of MNT 321,571 thousand for the year ended 31 December 2019.

23. Intangible assets

	2019 MNT'000	2018 MNT'000
At 31 December 2019		
At cost		
At 1 January	11,865,156	10,220,673
Additions	4,858,940	1,644,483
Transfer from property and equipment	337,179	–
At 31 December	17,061,275	11,865,156
Accumulated amortisation		
At 1 January	9,088,747	7,633,891
Charge for the year (Note 11)	2,101,911	1,454,856
At 31 December	11,190,658	9,088,747
Net carrying amount	**5,870,617**	**2,776,409**

24. Due to banks and other financial institutions

	2019 MNT'000	2018 MNT'000
Current accounts from banks and financial institutions	23,482,750	35,040,395
Time deposits from banks and financial institutions	165,901,028	147,318,581
	189,383,778	**182,358,976**

At 31 December 2019 and 2018, time deposits included deposit from local banks denominated in USD with interest rates between 5.0% to 6.0% (2018: 5.0% to 6.0%) and in MNT with interest rate of 10.0% (2018: 10.0%) per annum and original maturity from 3 to 12 months (2018: 4 to 12 months).

25. Repurchase agreements

	2019 MNT'000	2018 MNT'000
Bank of Mongolia	65,013,356	65,013,356

In 2016, the Bank entered into repurchase agreement with BoM, whereas the Bank sold DBM bonds (Note 15) under three separate repurchase agreements at an aggregate amount of MNT 65,000,000 thousand. The agreements bear annual interest of 7.5% and shall mature in October, November and December 2021 respectively.

26. Due to customers

	2019 MNT'000	2018 MNT'000
Government deposits		
- Current accounts	277,288,218	156,273,022
- Time deposits	107,613,567	44,396,897
- Guarantee fund	10,687,997	20,646,111
Private sector deposits		
- Current accounts	764,207,019	1,179,692,645
- Time deposits	503,991,177	117,065,077
- Guarantee and LC fund	59,124,327	32,586,782
- Other	507,890	400,384
- Demand deposits	894	–
Individual deposits		
- Time deposits	1,559,123,843	1,497,843,543
- Demand deposits	283,447,438	313,536,349
- Current accounts	254,628,922	236,410,168
- Guarantee and LC fund	–	150,450
- Other	812,842	690,494
	3,821,434,134	**3,599,691,922**

27. Borrowed funds

	2019 MNT'000	2018 MNT'000
Borrowed funds from foreign banks and financial institutions		
VTB Bank Russia	155,554,252	177,739,764
Bank of Inner Mongolia	60,866,396	31,307,450
Deutsche Bank AG	56,769,907	78,878,785
China Development Bank	56,459,336	54,479,876
Huishang Bank	48,034,171	–
Transkapitalbank	27,439,394	22,771,184
Asian Development Bank*	24,397,994	21,123,601
Japan International Cooperation Agency	20,671,649	25,183,563
Erste Group Bank	16,462,860	16,420,823
Commerzbank AG	10,426,411	53,114,208
UBI Banca	10,017,762	–
Atlantic Forfaitierungs AG	9,312,103	13,056,847
Industrial and Commercial Bank of China	7,555,807	5,001,778
Japan Bank of International Cooperation	7,347,512	14,211,582
Banca Popolare di Sondrio	5,618,841	–
Sumitomo Mitsui Banking Corporation	3,346,223	19,874,271
Kreditanstalt fuer Wiederaufbau	3,282,210	4,214,079
International Bank of Economic Cooperation	3,124,045	27,413,721
Crowdcredit Estonia OU	2,481,013	387,879
China Trade Solutions	1,650,580	1,809,376
Export-Import Bank of Republic of China	1,352,495	3,281,134
International Development Association	1,130,275	1,156,513
Baoshang Bank	1,122,392	115,876,125
ING Bank	566,792	3,036,377
World Bank	288,795	344,526
Agricultural Bank of China	–	3,521,630
Borrowed funds from government organizations		
Development Bank of Mongolia	124,798,312	178,338,079
Mortgage Financing Programme by Bank of Mongolia and the Ministry of Finance	99,000,370	107,110,086
SME Development Fund	212,810	1,674,902
	759,290,707	**981,328,159**

Borrowings are all unsecured except for the funds obtained from DBM under Wool project with outstanding balance of MNT 1,979 million (2018: nil), which is secured by unquoted BoM treasury bills with face value of MNT 2 billion (Note 15).

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

- capital related ratios (such as risk weighted capital adequacy ratio, ratio between tier 1 capital and total capital);
- financial risks related ratios (such as aggregate foreign currency open position, single currency foreign exchange risk ratio, liquidity ratio);
- credit related ratios (such as single largest borrowers to the equity ratio, related party lending ratio and aggregate large exposures ratio);
- Other ratios (non-current assets to total assets, non-performing loans to total loan ratio, etc.).

In the case of non-compliance with covenants e.g., if the Bank defaults, the borrowing becomes immediately payable on demand. For this reason, the Bank monitors its compliance with BoM prudential ratios and other debt covenants on a monthly basis.

27. Borrowed funds (contd.)

*As at 31 December 2019, the Bank has breached the financial covenant specifying Non-performing loan ratio requirement with Asian Development Bank ("ADB"). The Bank obtained a waiver from ADB, which temporarily suspends TDB's right to obtain additional funding under the program. Nevertheless, the financing agreements with ADB are still valid and repayments are made by the bank timely. The Bank considers such breach will not have significant influence on the financial statement of the Bank.

The funds that are due in 2020 were settled by the Bank in full and further new funds were obtained.

28. Subordinated debts

	2019 MNT'000	2018 MNT'000
United Banking Corporation LLC	150,046,057	–

In 2019, the Bank has obtained MNT 150 billion of financing in the form of subordinated debt from United Banking Corporation LLC. The subordinated debt bears annual interest of 15.0% and shall mature on 2 January 2025. The subordinated debt was fully repaid on 1 December 2020.

29. Debt securities issued

	2019 MNT'000	2018 MNT'000
Debt securities issued in foreign market	1,376,348,436	1,315,674,210
Debt securities issued in domestic market	160,140,274	160,140,274
	1,536,488,710	**1,475,814,484**

On 19 May 2015, the Bank issued USD 500 million guaranteed notes (unconditionally and irrevocably guaranteed by the Government of Mongolia) due on 19 May 2020 at a price of 100% under its USD 500 million Global Medium-Term Note Programme which was launched on 28 April 2015. These bonds bear interest of 9.375% per annum payable semi-annually. The bonds were fully settled on its due date.

Under the TARP, the Bank issued MNT 160,000,000 thousand debt securities to BoM on 28 June 2016 (See Note 17). The debt securities shall mature on 28 June 2021 and bears annual interest rate of 8.0% payable semi-annually.

30. Other liabilities

	2019 MNT'000	2018 MNT'000
Liabilities for loans sold to MIK with recourse (Note 17)	435,050,735	4,185,444
Delay on clearing settlement	55,741,656	25,368,009
Payables to third parties	9,233,977	6,451,881
Deferred revenue and income	4,383,314	3,021,500
Finance lease payable (computer lease)	1,496,274	1,441,315
Provision on off-balance sheet commitments (Note 34)	1,360,520	2,055,572
Taxes payable other than income tax	395,693	641,204
Others	858,332	8,177,376
	508,520,501	**51,342,301**

Delay on clearing settlement accounts mainly related to the amount of payables on cash and settlements services. Related balances were settled on next working day.

Deferred revenue and income pertains to the interest income received upfront from Ministry of Food, Agriculture and Light Industry, and partial advances received for sale of foreclosed properties.

31. Share capital, Earnings per share and Other reserves

Share capital and share premium

	Number of ordinary shares 2019	Number of ordinary shares 2018	Share capital 2019 MNT'000	Share capital 2018 MNT'000	Share premium 2019 MNT'000	Share premium 2018 MNT'000
At 1 January	3,649,150	3,305,056	55,205,582	50,000,011	210,393,158	19,272,456
Issued during the year	–	344,094	–	5,205,571	–	191,120,702
Reversed during the year	(344,048)	–	(5,204,875)	–	(191,095,152)	–
At 31 December	**3,305,102**	**3,649,150**	**50,000,707**	**55,205,582**	**19,298,006**	**210,393,158**

The Bank has 4,000,000 shares authorized for issue from which total of 3,305,102 shares were issued and outstanding as of 31 December 2019 (2018: 3,649,150 shares). All issued shares were fully paid and have a par value of MNT 15,128.

In 2019, the Bank of Mongolia has revoked their approval of Bank's addition to its capital made in 2018, in which the Bank has reversed its issued shares which was approved by BoM.

Other reserves

	Asset revaluation reserve MNT'000	Available-for-sale investment revaluation reserve MNT'000	Cash flow hedge reserve MNT'000	Total MNT'000
At 1 January 2019	129,231,895	10,738,119	29,398,246	169,368,260
Net change in fair value	–	7,847,158	–	7,847,158
Fair value gain on hedging instrument	–	–	6,054,050	6,054,050
Revaluation on hedging instrument reclassified to profit or loss against hedged item	–	–	(35,452,296)	(35,452,296)
Changes due to disposal and write-offs	–	3,659,613	–	3,659,613
At 31 December 2019	**129,231,895**	**22,244,890**	**–**	**151,476,785**
At 1 January 2018	130,014,323	13,722,144	72,371,681	216,108,148
Changes in fair value	6,908,433	(3,053,015)	–	3,855,418
Fair value gain on hedging instrument	–	–	64,921,565	64,921,565
Revaluation on hedging instrument reclassified to profit or loss against hedged item	–	–	(107,895,000)	(107,895,000)
Changes due to disposal	(7,690,861)	–	–	(7,690,861)
Changes due to disposal and write-offs	–	68,990	–	68,990
At 31 December 2018	**129,231,895**	**10,738,119**	**29,398,246**	**169,368,260**

32. Segment reporting

Segment information is presented in respect of the Bank's business segments. The primary format, operating segments, is based on the Bank's management and internal reporting structure.

Operating segments pay to and receive interest from the Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill.

Operating segments

The Bank comprises the following main operating segments:

Corporate Banking: Includes loans, deposits and other transactions and balances with corporate customers. The Bank classifies its customer as Corporate Banking customer, where the loan amount is greater than MNT 3 billion, or the borrower's sales amount reported in the financial statements is greater than MNT 6 billion (or, for customers whose financial statements are unavailable to the Bank, two-year average total income transacted through the current account held with the Bank is greater than 4 billion), and State-owned enterprises.

Small and Medium sized Enterprise ("SME") Banking: Includes loans, deposits and other transactions and balances with SME customers (both individuals and entities). The Bank classifies its customer as SME Banking customer, where the loan amount is below MNT 3 billion, or the borrower's sales amount is below MNT 6 billion (or, for customers whose financial statements are unavailable to the Bank, two-year average total income transacted through the current account held with the Bank is below 4 billion), and individuals receiving products and services with business nature.

Retail Banking: Includes loans, deposits and other transactions and balances with retail customers and card customers. The Bank classifies its non-business products other than SME banking products with customers as retail.

Investment and International Banking: Includes the Bank's trading, corporate finance, borrowing from foreign financial institutions, issues of debt securities and bond in the international capital market.

Treasury: Undertakes the Bank's funding and centralised risk management activities through borrowings, use of derivatives for risk management purposes and investing in assets such as short-term placements and corporate and government debt securities. Operation is the Bank's funds management activities.

Others: Includes Headquarter operations and central shared services operation that manages the Bank's premises and certain corporate costs.

32. Segment reporting (contd.)

At 31 December 2019	Corporate Banking MNT'000	SME Banking MNT'000	Retail Banking MNT'000	Investment and International Banking MNT'000	Treasury MNT'000	Other MNT'000	Total MNT'000
Segment results							
External revenue							
Net interest income/(expense)	293,351,716	57,281,840	(130,353,063)	(186,037,170)	145,785,155	(118,251)	179,910,227
Net fee and commission income	7,279,913	(384,081)	32,632,600	368,558	587,365	(111,725)	40,372,630
Other operating income/(expense), net	1,289,991	–	7,265,116	–	23,031,156	481,192	32,067,455
Intersegment revenue/(expense)	(239,939,629)	(3,453,581)	201,696,135	193,744,203	(152,006,607)	(40,521)	–
Total segment revenue/(expense)	61,981,991	53,444,178	111,240,788	8,075,591	17,397,069	210,695	252,350,312
Operating expense	2,897,156	18	50,594,611	5,298,517	3,317,975	67,780,197	129,888,474
Credit loss expense on financial assets	37,181,478	4,290,567	16,504,129	–	16,468	94,285	58,086,927
Profit/(loss) before tax	21,903,357	49,153,593	44,142,048	2,777,074	14,062,626	(67,663,787)	64,374,911
Income tax expense	–	–	–	–	–	206	206
Net profit/(loss) for the year	**21,903,357**	**49,153,593**	**44,142,048**	**2,777,074**	**14,062,626**	**(67,663,993)**	**64,374,705**
Segment assets	**2,678,840,188**	**350,794,030**	**674,196,579**	**–**	**3,569,685,356**	**550,181,412**	**7,823,697,565**
Segment liabilities	**29,409,430**	**560,583**	**3,485,242,435**	**1,914,125,500**	**1,673,281,520**	**17,375,702**	**7,119,995,170**
Depreciation and amortisation	31,257	–	5,952,756	13,335	12,591	10,338,130	16,348,069
Capital expenditure	67,345	–	10,989,389	22,783	8,716	21,299,759	32,387,992

At 31 December 2018	Corporate Banking MNT'000	SME Banking MNT'000	Retail Banking MNT'000	Investment and International Banking MNT'000	Treasury MNT'000	Other MNT'000	Total MNT'000
Segment results							
External revenue							
Net interest income/(expense)	281,432,184	25,177,924	(125,473,783)	(190,000,361)	197,207,088	(129,030)	188,214,022
Net fee and commission income	8,757,553	135,237	28,666,783	72,554	247,061	63,193	37,942,381
Other operating income/(expense), net	426,334	–	7,678,057	–	30,604,682	(376,423)	38,332,650
Intersegment revenue/(expense)	(216,375,840)	(3,355,977)	220,615,595	197,654,987	(198,497,580)	(41,185)	–
Total segment revenue/(expense)	74,240,231	21,957,184	131,486,652	7,727,180	29,561,251	(483,445)	264,489,053
Operating expense	1,315,127	–	43,718,520	2,033,266	2,424,857	41,229,246	90,721,016
Credit loss expense on financial assets	129,037,050	(925,059)	1,020,450	–	2,560	(45,961)	129,089,040
Profit/(loss) before tax	(56,111,946)	22,882,243	86,747,682	5,693,914	27,133,834	(41,666,730)	44,678,997
Income tax expense						250,109	250,109
Net profit/(loss) for the year	**(56,111,946)**	**22,882,243**	**86,747,682**	**5,693,914**	**27,133,834**	**(41,916,839)**	**44,428,888**
Segment assets	**2,478,670,720**	**196,788,114**	**730,434,863**	**–**	**3,291,641,368**	**588,310,188**	**7,285,845,253**
Segment liabilities	**26,811,329**	**493,598**	**3,570,046,751**	**2,012,978,953**	**734,253,783**	**12,480,757**	**6,357,065,171**
Depreciation and amortisation	15,066	–	4,106,983	8,922	11,116	5,468,521	9,610,608
Capital expenditure	33,504	–	11,341,131	9,485	3,910	64,932,419	76,320,449

33. Additional cash flow information

	2019 MNT'000	2018 MNT'000
Cash and balances with BoM (Note 13)	1,096,100,972	1,014,958,242
Due from banks and financial institutions (Note 14)	301,381,272	280,597,007
Unquoted BoM treasury bills - less than three months (Note 15)	598,900,912	443,184,145
Gross carrying cash and cash equivalents amount	**1,996,383,156**	**1,738,739,394**
Less: Minimum reserve with the BoM not available to finance the Bank's day to day operations	(465,197,209)	(410,810,982)
Less: Placement with foreign bank as cash collateral	(15,250,230)	(14,660,079)
Less: Placement with domestic bank as cash guarantee in syndicated risk participation	(87,601,514)	(55,849,639)
Less: Unquoted BoM treasury bills - less than three months held as collateral	(1,988,613)	–
Net cash and cash equivalents	**1,426,345,590**	**1,257,418,694**

34. 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 (see Note 35).

	2019 MNT'000	2018 MNT'000
Uncovered Guarantees and Letters of credit	350,275,914	209,435,223
Undrawn credit lines	179,013,676	192,259,999
Unfunded Syndicated risk participation	–	45,172,472
	529,289,590	**446,867,694**

The table below shows the movement on allowance for impairment losses recognised on off-balance commitments:

	2019 MNT'000	2018 MNT'000
At 1 January	2,055,572	–
Charge for the year	1,182,040	2,055,572
Reversal for the year	(1,877,092)	–
Net reversal (Note 10)	(695,052)	2,055,572
At 31 December	**1,360,520**	**2,055,572**

As of 31 December 2019, the Bank had capital commitments for construction in progress of USD 106 million (Note 18 and 21).

According to the BoM president resolution in 2017, all commercial banks operating in Mongolia are required to have minimum share capital of MNT 100 billion by the end of 2021. The Bank's share capital as at 31 December 2019 amounted to MNT 69.3 billion.

Contingent liabilities

Guarantees and letter of credits commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to tender and bid auction. They generally carry the same risk as loans even though they are of a contingent nature.

Commitments

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

34. Contingent liabilities and commitments (contd.)

Undrawn credit lines

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorized credit line. With respect to credit risk on commitments to extend credit, the Bank can be exposed to loss in an amount equal to the total unused credit commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining certain specific credit standards.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss can be reasonably estimated, the Bank makes provision to account for any adverse effects on its financial statements.

At 31 December 2019, there were no major litigation cases involving the Bank.

Tax legislation

Mongolian tax 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.

35. Risk management

(1) Introduction

The main risks inherent in the Bank's operations are credit risks, liquidity risks and market risks. This note provides information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management structure

The Board of Directors ("BoD") is responsible for the overall risk management approach and for approving the risk policy and credit policy which specify risk appetite and tolerances. However, there are separate independent bodies responsible for managing and monitoring risks.

Representative Governing Board ("RGB")

The Bank's Representative Governing Board is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The RGB is assisted in these functions by Internal Audit.

35. Risk management (contd.)

(1) Introduction (contd.)

Internal Audit

Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the RGB. Internal audit examines both the adequacy of the procedures and the Bank's compliance with the procedures.

Executive Committee

The Executive Committee consists of all the executive management of the Bank and is chaired by the CEO and holds regular meetings to discuss and decide the Bank's strategic issues and planning required for sustainable business management.

Asset and Liability Committee ("ALCO")

ALCO is responsible for providing centralized asset and liability management of the funding, liquidity, foreign currency exposure, maturity and interest rate risks to which the Bank is exposed. The purpose of ALCO is to set up the asset and liability structure of the Bank's balance sheet conducive for sustainable growth of the Bank, its profitability and liquidity through comprehensive management of the Bank's assets and liabilities and monitoring of the foreign currency, interest rate and other market risks.

Risk Management Committee ("RMC")

RMC is responsible for anticipating and managing new and ongoing financial risk across business departments and maintaining appropriate limits on risk taking, adequate systems and standards for measuring operational risk, credit risk and performance, comprehensive risk reporting and management review process.

Credit Committees

The Bank's Risk Management Department ("RMD") is responsible for managing the Bank's market and credit risks. The Bank's Credit Committee's structure was established to manage the Bank's credit risk at various levels. The Bank following types of credit committees for loan approval and monitoring:

1. General credit committee is responsible for the overall credit policies and procedures of the Bank and currently approves all credit exposures above MNT 500 million.
2. Retail credit committee approves credit exposures exceeding the branch credit committee approval limit and up to MNT 500 million.
3. Salary and savings backed loan credit committee approves salary and pension loans exceeding MNT 20 million.
4. Branch credit committee, depending on the branch size approves credit exposures from MNT 60 million up to MNT 180 million, and salary and pension loans up to MNT 20 million.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Risk measurement and reporting system

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the BOD, RGB, ALCO, RMC and Credit Committees, and the head of each business departments. The reports include the aggregate credit exposure, credit metric forecasts, liquidity ratios and risk profile changes.

Both ALCO and RMC receive a comprehensive risk report every quarter which is designed to provide all the necessary information to assess and conclude on the risk exposure of the Bank. Bi-weekly briefing is presented to the ALCO on the utilisation of market limits, analysis, and liquidity, and any other risk developments.

35. Risk management (contd.)

(1) Introduction (contd.)

Risk mitigation

As part of its overall risk management, the Bank uses basis sensitivity analysis to measure and analyse exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions. The Bank actively utilizes collaterals and personal guarantees to reduce its credit risks.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

At the individual basis, BoM sets the standards of limitation as follows:

- The maximum amount of the overall credit exposures issued and other credit-equivalent assets to an individual creditor and his/her related persons shall not exceed 20% of the equity of the Bank.
- The maximum amount of the credit exposures issued, and other credit-equivalent assets shall not exceed 5% of the equity for one related person to the Bank, and the aggregation of overall lending to the related persons shall not exceed 20% of the equity of the Bank.

The Bank's policy requires it to maintain sufficient liquidity corresponding to the level of deposit concentration.

(2) Credit risk

Credit risk is the risk that the Bank could incur a loss because its customers, clients or counterparties fail to fulfill their contractual obligations. The Bank manages and controls credit risk by carefully screening credit applications, setting interest rate adjusted for risk level, and setting limits on credit exposures for individual counterparties, geographical area, and industry, and monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to identify potential losses and take early corrective actions.

The Bank regularly examines and improves credit policies and procedures to keep its lending activities in line with the best practice.

Credit-related Commitments Risks

The Bank makes available to its customers guarantees and standby letters of credit, which may require the Bank to make payments on their behalf. Such payments, if made, are collected from customers based on the terms of the particular letters of guarantee. These commitments expose the Bank to similar risks as loans; therefore, the related risks are managed by the same procedures and policies.

35. Risk management (contd.)

(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.

	2019 MNT'000	2018 MNT'000
Cash and balances with BoM (excluding cash on hand and current accounts with BoM)	452,916,902	–
Due from other banks and financial institutions	301,819,280	280,876,255
Financial investments	1,832,616,770	1,802,607,143
Derivative financial instruments	494,861,756	379,263,246
Loans and advances to customers	3,934,355,996	3,660,974,961
Other financial assets	5,888,742	3,833,933
	7,022,459,446	6,127,555,538
Uncovered Guarantees and Letters of credit	350,275,914	209,435,223
Undrawn credit lines	179,013,676	192,259,999
Unfunded Syndicated risk participation	–	45,172,472
	529,289,590	446,867,694
Total exposure to credit risk	**7,551,749,036**	**6,574,423,232**

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.

Analysis of risk concentration

The table below show the analysis per industry sector of the Bank's loans and advances to customers (Note 17) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

	Gross maximum exposure			
	2019 MNT'000	%	2018 MNT'000	%
Trading	887,182,636	22.55%	823,323,910	22.49%
Mining and quarrying	583,301,116	14.83%	417,433,714	11.40%
Construction	497,090,897	12.63%	518,410,801	14.16%
Financial services*	374,814,148	9.53%	370,681,009	10.13%
Manufacturing	353,795,538	8.99%	415,381,413	11.35%
Mortgage	272,320,795	6.92%	265,163,529	7.24%
Payment card	212,807,471	5.41%	197,537,716	5.40%
Petrol import and trade	148,581,652	3.78%	121,649,928	3.32%
Hotel, restaurant and tourism	113,409,481	2.88%	105,091,644	2.87%
Transportation and communication	72,825,008	1.85%	60,694,041	1.66%
Savings collateralised	63,471,973	1.61%	47,447,466	1.30%
Health	33,724,233	0.86%	34,715,001	0.95%
Education	26,242,865	0.67%	28,426,513	0.78%
Electricity and thermal energy	22,188,970	0.56%	23,231,674	0.63%
Agriculture	21,606,289	0.55%	19,821,941	0.54%
Other	250,992,924	6.38%	211,964,661	5.79%
	3,934,355,996	**100.00%**	**3,660,974,961**	**100.00%**

*The Bank classified the holding company that only owns shares of companies in other industries as financial services in accordance with the Bank's sector codification.

35. Risk management (contd.)

(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 main types of collateral obtained are as follows:

- corporate lending: charges over real-estate properties, equipment and machineries;
- small business lending: charges over real estate properties;
- retail lending: charges over automobiles and assignment of income; and charges over real estate properties;
- residential mortgages: mortgages over residential properties.

The Bank regularly monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Bank does not occupy repossessed properties for business use.

The table below summarise the Bank's collateral for loans and advances that are delinquent or individually impaired:

	2019			**2018**		
	Gross MNT'000	**Net MNT'000**	**Fair value of collaterals MNT'000**	**Gross MNT'000**	**Net MNT'000**	**Fair value of collaterals MNT'000**
Special mention	716,815,475	583,922,496	555,815,787	712,418,618	627,283,738	583,844,227
Substandard	83,886,838	64,488,389	62,501,138	138,554,034	101,797,075	101,582,341
Doubtful	291,571,638	163,973,135	163,848,300	302,343,075	134,315,314	134,251,470
Loss	144,620,533	21,620,084	21,619,953	128,499,518	99,450	23,109
	1,236,894,484	**834,004,104**	**803,785,178**	**1,281,815,245**	**863,495,577**	**819,701,147**

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings and BoM regulation. It is the Bank's policy to maintain accurate and consistent risk grades across the credit portfolio. This facilitates the management of the applicable risks and the comparison of credit exposures across all lines of loan and other products.

35. Risk management (contd.)

(2) Credit risk (contd.)

Credit quality per class of financial assets (contd.)

The table above shows the credit quality by class of asset for the following financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowance.

	Cash and balances with BoM MNT'000	Due from other banks and financial institutions MNT'000	Financial investments MNT'000	Derivative financial instruments MNT'000	Loans and advances to customers* MNT'000	Other financial assets MNT'000
At 31 December 2019						
Performing	1,096,100,972	301,819,280	1,832,616,770	494,861,756	2,697,461,512	5,676,659
Special mention	–	–	–	–	716,815,475	5,823
Non-performing:						
Substandard	–	–	–	–	83,886,838	2,759
Doubtful	–	–	–	–	291,571,638	5,199
Loss	–	–	–	–	144,620,533	198,302
Gross amount	1,096,100,972	301,819,280	1,832,616,770	494,861,756	3,934,355,996	5,888,742
Allowance for impairment	–	(438,008)	–	–	(431,204,350)	(270,511)
Net carrying amount	**1,096,100,972**	**301,381,272**	**1,832,616,770**	**494,861,756**	**3,503,151,646**	**5,618,231**
At 31 December 2018						
Performing	1,014,958,242	280,876,255	1,802,607,143	379,263,246	2,379,159,716	3,119,018
Special mention	–	–	–	–	712,418,618	4,436
Non-performing:						
Substandard	–	–	–	–	138,554,034	23,805
Doubtful	–	–	–	–	302,343,075	44,062
Loss	–	–	–	–	128,499,518	642,612
Gross amount	1,014,958,242	280,876,255	1,802,607,143	379,263,246	3,660,974,961	3,833,933
Allowance for impairment		(279,248)			(434,611,084)	(724,883)
Net carrying amount	**1,014,958,242**	**280,597,007**	**1,802,607,143**	**379,263,246**	**3,226,363,877**	**3,109,050**

*Specific loans related to Troubled Asset Relief Program has BOM waiver applied with respect to its classification and provisioning ratio (Note 17).

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the qualitative ratings appropriate for each individually significant loan or advance on an individual basis and uses the determined qualitative rating to assign the final rating and thus allowance rate. Items considered when determining qualitative ratings include the sustainability of the counterparty's business, its financial performance, infringement of the terms of the contract, the availability of other financial support and the realizable value of collateral. The impairment losses are evaluated monthly and at each reporting date.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant. Allowances are evaluated monthly including each reporting date based on the quantitative characteristics of the loan, namely number of overdue days.

35. Risk management (contd.)

(2) Credit risk (contd.)

Impairment assessment (contd.)

Financial guarantees and letters of credit are assessed, and provisions are made in a similar manner as for loans and advances by taking into account both qualitative characteristics of the customer and maturity of the contract.

Credit concentration ratio

As stipulated in the Banking Law of Mongolia, the total value of loans, loan equivalent assets and guarantees provided to one borrower or group of related borrowers shall not exceed 20% of the total equity of the Bank. The maximum value of loans, loan equivalent assets and guarantees provided to a shareholder, the chairman, a member of the Representative Governing Board, an executive director or a bank officer or any related person thereof shall not exceed 5% of the capital of the Bank, and the total amount shall not exceed 20% of the capital of the Bank respectively.

There were no breaches of the respective requirements as of 31 December 2019 and 2018.

(3) Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank's ALCO sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities, which is in line with the liquidity ratio described in Banking Law of Mongolia.

For this purpose the Bank maintains a liquidity ratio; calculated as a ratio of a the Bank's liquid assets, including cash on hand, deposits and placements with banks and other financial institutions, balances with BoM and investment securities to the Bank's liquid liabilities; including deposit from customers, deposits and placements from the Banks and other financial institutions, loans from foreign financial institutions, taxation and debt securities issued.

Details of the reported ratio at the reporting date were as follows:

	2019	**2018**
At 31 December	32.1%	42.3%

Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial assets and financial liabilities at 31 December 2019 and 31 December 2018 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.

35. Risk management (contd.)

(3) Liquidity risk (contd.)

Analysis of financial assets and financial liabilities by remaining contractual maturities (contd.)

At 31 December 2019	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 MNT'000
Financial assets							
Cash and balances with Bank of Mongolia	643,184,070	453,378,560	–	–	–	–	1,096,562,630
Due from other banks and financial institutions	136,261,549	110,286,345	45,078,113	2,034,643	18,230,958	7,809,122	319,700,730
Financial investments	51,679,949	680,154,027	114,404,835	180,267,506	1,108,836,237	349,334,960	2,484,677,514
Derivative financial instruments	–	31,195,360	971,940,000	46,967,424	777,151,290	–	1,827,254,074
Loans and advances to customers	2,900,776	438,045,056	426,308,223	856,756,612	1,899,070,499	736,505,434	4,359,586,600
Other financial assets	5,888,742	–	–	–	–		5,888,742
	839,915,086	1,713,059,348	1,557,731,171	1,086,026,185	3,803,288,984	1,093,649,516	10,093,670,290
Financial liabilities							
Due to banks and other financial institutions	23,778,068	65,285,321	74,606,036	29,221,838	–	–	192,891,263
Repurchase agreements	13,356	–	–	–	74,787,397	–	74,800,753
Due to customers	1,630,002,045	830,960,811	558,954,585	753,216,454	130,060,721	27,241,409	3,930,436,025
Derivative financial instruments	–	–	–	–	777,151,290	–	777,151,290
Borrowed funds	7,556,055	116,412,140	120,364,271	299,019,894	255,255,207	8,445,277	807,052,844
Sub-ordinated debt	–	–	–	22,561,678	67,376,814	172,808,477	262,746,969
Debt securities issued	–	–	1,438,495,192	6,417,534	166,382,466	–	1,611,295,192
Lease liabilities	–	1,392,138	1,392,138	2,784,275	11,446,651	–	17,015,202
Other financial liabilities	5,810,521	71,206,046	–	–	557,890,926	7,521,513	642,429,006
Uncovered Guarantees and Letters of credit	13,767,934	336,507,980	–	–	–	–	350,275,914
Undrawn credit lines	179,013,676	–	–	–	–	–	179,013,676
	1,859,941,655	1,421,764,436	2,193,812,222	1,113,221,673	2,040,351,472	216,016,676	8,845,108,134
	(1,020,026,569)	291,294,912	(636,081,051)	(27,195,488)	1,762,937,512	877,632,840	1,248,562,156

35. Risk management (contd.)

(3) Liquidity risk (contd.)

Analysis of financial assets and financial liabilities by remaining contractual maturities (contd.)

At 31 December 2018	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 MNT'000
Financial assets							
Cash and balances with Bank of Mongolia	1,014,958,242	–	–	–	–	–	1,014,958,242
Due from other banks and financial institutions	217,088,733	44,450,365	530,824	12,029,938	8,391,033	9,644,651	292,135,544
Financial investments	46,514,889	487,357,917	43,961,670	125,534,741	1,313,637,035	601,179,666	2,618,185,918
Derivative financial instruments	–	–	–	–	971,940,000	–	971,940,000
Loans and advances to customers	1,674,317	440,536,199	322,697,723	695,725,736	2,129,626,824	654,981,754	4,245,242,553
Other financial assets	3,833,933	–	–	–	–	–	3,833,933
	1,284,070,114	972,344,481	367,190,217	833,290,415	4,423,594,892	1,265,806,071	9,146,296,190
Financial liabilities							
Due to banks and other financial institutions	35,395,351	1,410,192	13,603,435	15,585,855	124,803,172	–	190,798,005
Repurchase agreements	13,356	–	–	–	79,050,685	–	79,064,041
Due to customers	1,961,459,010	572,907,774	388,701,465	628,913,721	122,286,219	18,997,788	3,693,265,977
Derivative financial instruments	–	24,667,916	–	–	–	–	24,667,916
Borrowed funds	9,664,837	133,239,224	41,692,286	222,501,704	636,223,314	32,831,783	1,076,153,148
Debt securities issued	–	–	71,549,739	73,117,205	1,563,616,564	–	1,708,283,508
Other financial liabilities	24,717	41,438,581	–	–	–	11,030,865	52,494,163
Uncovered Guarantees and Letters of credit	20,624,183	188,811,040	–	–	–	–	209,435,223
Undrawn credit lines	192,259,999	–	–	–	–	–	192,259,999
Unfunded Syndicated risk participation	–	45,172,472	–	–	–	–	45,172,472
	2,219,441,453	1,007,647,199	515,546,925	940,118,485	2,525,979,954	62,860,436	7,271,594,452
	(935,371,339)	(35,302,718)	(148,356,708)	(106,828,070)	1,897,614,938	1,202,945,635	1,874,701,738

(4) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

35. Risk management (contd.)

(4) Market risk (contd.)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect bank's profitability, future cash flows or the fair values of financial instruments. 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. Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the Bank's sensitivity to a 100 basis point (BP) increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	Change in basis points	Sensitivity of net interest income MNT'000	Risk limit set for profit or loss MNT'000	Sensitivity of equity MNT'000	Risk limit set for equity MNT'000
At 31 December 2019					
Currency					
USD	+/- 100	+/- 898,233	+/- 211,110,719	+/- 808,410	+/- 211,110,719
MNT	+/- 100	-/+ 14,477,075	+/- 211,110,719	-/+ 13,029,368	+/- 211,110,719
OTHER	+/- 100	-/+ 211,104	+/- 211,110,719	-/+ 189,993	+/- 211,110,719
At 31 December 2018					
Currency					
USD	+/- 100	-/+ 6,549,074	+/- 371,512,033	-/+ 5,894,167	+/- 371,512,033
MNT	+/- 100	-/+ 25,218,763	+/- 371,512,033	-/+ 22,696,887	+/- 371,512,033
OTHER	+/- 100	-/+ 131,930	+/- 371,512,033	-/+ 118,737	+/- 371,512,033

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ALCO sets limits on the level of exposure by currencies (primarily USD), which are monitored on a frequent basis. The Bank manages its currency risk primarily through ensuring compliance with the prudential ratio for foreign currency open position established by the BoM and through assessing the impact of foreign currency exchange rate movements on the Bank's liquidity and profitability. Also the Bank uses limits, calculated using Value-at-Risk method, for foreign exchange risk management. ALCO approves stop loss limits for overall currency positions on a quarterly basis. Market Risk Department oversees that the currency exchange operations are managed within the approved limits.

Objectives and limitations of the VaR Methodology

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

35. Risk management (contd.)

(4) Market risk (contd.)

Currency risk (contd.)

Objectives and limitations of the VaR Methodology (contd.)

VaR limits have been established for all foreign currency open positions and exposures are reviewed daily against the limits by management. The estimated potential one-day losses on its foreign currency denominated financial instruments, as calculated in the VAR models are the following:

	Historical Simulation 2019 MNT'000	2018 MNT'000
31 December	(430,278)	(643,402)
Average Daily	(552,576)	(1,715,764)
Highest	(1,154,107)	(3,198,548)
Lowest	(66,975)	(284,379)

The Bank applies cash flow hedge accounting to the foreign currency element of its issued USD-denominated debt securities and associated cross currency interest rate swaps. Note 16 sets out the details of the hedge accounting and the effectiveness of the hedge.

The table below summarizes the Bank's exposure to foreign exchange risk as at 31 December 2019 and 31 December 2018. Included in the table are the Bank's financial assets and liabilities at carrying amounts.

	2019			2018		
	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000
Financial assets						
Cash and balances with Bank of Mongolia	295,390,646	800,710,326	1,096,100,972	241,296,931	773,661,311	1,014,958,242
Due from other banks and financial institutions	78,259,688	223,121,584	301,381,272	43,352,776	237,244,231	280,597,007
Financial investments	1,803,354,425	29,262,345	1,832,616,770	1,777,249,261	25,357,882	1,802,607,143
Derivative financial instruments	494,861,756	–	494,861,756	379,263,246	–	379,263,246
Loans and advances to customers	2,393,888,096	1,109,263,550	3,503,151,646	2,117,210,524	1,109,153,353	3,226,363,877
Other financial assets	4,474,993	1,143,238	5,618,231	1,766,165	1,342,885	3,109,050
	5,070,229,604	2,163,501,043	7,233,730,647	4,560,138,903	2,146,759,662	6,706,898,565
Financial liabilities						
Due to banks and other financial institutions	26,804,040	162,579,738	189,383,778	2,935,832	179,423,144	182,358,976
Repurchase agreements	65,013,356	–	65,013,356	65,013,356	–	65,013,356
Due to customers	2,226,832,042	1,594,602,092	3,821,434,134	2,055,463,935	1,544,227,987	3,599,691,922
Derivative financial instruments	76,226,529	–	76,226,529	1,515,973	–	1,515,973
Borrowed funds	272,201,469	487,089,238	759,290,707	333,975,424	647,352,735	981,328,159
Sub-ordinated debt	150,046,057	–	150,046,057	–	–	–
Debt securities issued	160,140,274	1,376,348,436	1,536,488,710	160,140,274	1,315,674,210	1,475,814,484
Lease liabilities	13,591,398	–	13,591,398	–	–	–
Other financial liabilities	474,984,608	27,396,366	502,380,974	28,697,767	16,926,258	45,624,025
	3,465,839,773	3,648,015,870	7,113,855,643	2,647,742,561	3,703,604,334	6,351,346,895
Off-balance foreign currency exposure, net		1,368,791,743			1,319,708,331	
Net foreign currency exposure		(115,723,084)			(237,136,341)	

35. Risk management (contd.)

Currency risk (contd.)

An analysis of the Bank's open position sensitivity to a 10 percent appreciation or depreciation of MNT against USD (assuming all other variables constant) is as follows:

	Change in currency rate	Sensitivity of open position MNT'000	Risk limit for net positions MNT'000
At 31 December 2019			
Currency			
USD	+/- 10%	+/- 4,700,843	+/- 240,000,000
OTHER	+/- 10%	+/- 7,237,117	+/- 240,000,000
At 31 December 2018			
Currency			
USD	+/- 10%	-/+3,422,603	+/- 220,000,000
OTHER	+/- 10%	+/- 6,769,983	+/- 220,000,000

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

36. Fair value disclosures

Determination of fair value and fair value hierarchy

Fair value is the amount at which a financial instrument or other asset could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques.

The following table shows an analysis of financial instruments and other assets recorded at fair value by level of the fair value hierarchy.

At 31 December 2019	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
Available-for-sale investment securities				
Unquoted equity securities, at cost	–	–	3,876,615	3,876,615
Equity securities, at fair value	53,412,762	–	–	53,412,762
Quoted government bonds	29,262,345	–	–	29,262,345
Unquoted BoM treasury bills	–	598,900,912	–	598,900,912
Residential mortgage-backed securities	–	–	97,023,096	97,023,096
Derivative financial instruments	–	–	494,861,756	494,861,756
Non-financial assets				
Revalued properties	–	–	170,323,196	170,323,196
Investment properties	–	–	80,897,528	80,897,528
	82,675,107	**598,900,912**	**846,982,191**	**1,528,558,210**
Financial liability				
Derivative financial instruments	–	–	76,226,529	76,226,529
	–	**–**	**76,226,529**	**76,226,529**

36. Fair value disclosures (contd.)

Determination of fair value and fair value hierarchy (contd.)

At 31 December 2018	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
Available-for-sale investment securities				
Unquoted equity securities, at cost	–	–	3,552,205	3,552,205
Repossessed assets	–	–	75,260,890	75,260,890
Equity securities, at fair value	51,388,358	–	–	51,388,358
Quoted government bonds	25,357,882	–	–	25,357,882
Unquoted BoM treasury bills	–	443,184,145	–	443,184,145
Residential mortgage-backed securities	–	–	103,981,319	103,981,319
Derivative financial instruments	–	–	379,263,246	379,263,246
Non-financial assets				
Revalued properties	–	–	171,382,374	171,382,374
Investment properties	–	–	80,114,526	80,114,526
	76,746,240	**443,184,145**	**813,554,560**	**1,333,484,945**
Financial liability				
Derivative financial instruments	–	–	1,515,973	1,515,973
	–	**–**	**1,515,973**	**1,515,973**

Transfers between level 1, 2 and 3

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

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2019 and 2018:

	Fair value 2019 MNT'000	2018 MNT'000	Valuation technique	Inputs
Financial assets				
Unquoted BoM treasury bills	598,900,912	443,184,145	Market value approach	Market price

The were no change in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2019 and 2018.

The sensitivity to reasonably possible changes to inputs used in the fair value measurement for level 3 financial instrument is described below:

At 31 December 2019	Fair value MNT`000	Reasonable change	Sensitivity of the input to fair value, MNT'000	Valuation technique	Significant unobservable inputs
Financial assets					
Residential mortgage-backed securities	97,023,096	10%	+/- 9,702,310	Market approach	Market price
Derivative financial assets	494,861,756	-/+ 100bps	- 17,137,474/ +16,717,943	Discounted Cash Flow approach	MNT discount rate Forward MNT/USD exchange rate
Non-financial assets					
Revalued properties	170,323,196	10%	+/- 17,032,320	Market approach	Market price
Investment properties	80,897,528	10%	+/- 8,089,753	Market approach	Market price
Financial liabilities					
Derivative financial liability	76,226,529	-/+ 100bps	+ 14,234,579/ -13,838,263	Discounted Cash Flow approach	MNT discount rate Forward MNT/USD exchange rate

36. Fair value disclosures (contd.)

At 31 December 2018	Fair value MNT`000	Reasonable change	Sensitivity of the input to fair value, MNT'000	Valuation technique	Significant unobservable inputs
Financial assets					
Repossessed assets	75,260,890	10%	+/- 7,526,089	Market approach	Market price
Residential mortgage-backed securities	103,981,319	10%	+/- 10,398,132	Market approach	Market price
Derivative financial assets	379,263,246	-/+ 100bps	- 9,392,820/ +9,076,433	Discounted Cash Flow approach	MNT discount rate Forward MNT/USD exchange rate
Non-financial assets					
Revalued properties	171,382,374	10%	+/- 17,138,237	Market approach	Market price
Investment properties	80,114,526	10%	+/- 8,011,453	Market approach	Market price
Financial liabilities					
Derivative financial liability	1,515,973	-/+ 100bps	–	Discounted Cash Flow approach	MNT discount rate Forward MNT/USD exchange rate

There were no changes in valuation techniques during the year ended 31 December 2019 and 31 December 2018. Management believes that the fair value of financial assets is unlikely to be materially different from their carrying value as of 31 December 2019.

Movements in fair value measurements within Level 3 during the year

	2019 MNT’000	2018 MNT’000
Unquoted equity securities, at cost		
At 1 January	3,552,205	443,430
Additions	324,410	3,108,775
At 31 December	**3,876,615**	**3,552,205**
Residential mortgage-backed securities		
At 1 January	103,981,319	106,533,440
Addition	97,306,200	109,393,900
Sold	(104,456,500)	(111,768,100)
Accrued interest	192,077	(177,921)
At 31 December	**97,023,096**	**103,981,319**
Repossessed assets		
At 1 January	75,260,890	92,257,890
Provision charged to retained earnings	(75,260,890)	(16,997,000)
At 31 December	**–**	**75,260,890**
Derivative financial assets		
At 1 January	379,263,246	314,341,681
Fair value gain recognised in OCI	6,054,050	64,921,565
Hedge ineffectiveness recognised in the profit or loss	29,688,815	–
Additions	79,855,645	–
At 31 December	**494,861,756**	**379,263,246**

36. Fair value disclosures (contd.)

Movements in fair value measurements within Level 3 during the year (contd.)

	2019 MNT'000	2018 MNT'000
Revalued properties		
At 1 January	171,382,374	167,880,037
Addition	2,298,000	–
Depreciation charged in profit or loss	(3,357,178)	(3,406,098)
Revaluation	–	6,908,435
At 31 December	**170,323,196**	**171,382,374**
Investment properties		
At 1 January	80,114,526	91,951,413
Disposal	–	(13,300,560)
Revaluation	783,002	1,463,673
At 31 December	**80,897,528**	**80,114,526**
Derivative financial liability		
At 1 January	1,515,973	6,750
Additions	76,226,529	1,515,973
Repayment	(1,515,973)	(6,750)
At 31 December	**76,226,529**	**1,515,973**

Unquoted equities securities at cost

The impact of the reasonably possible change in the fair value assumptions for level 3 financial instruments is not quantified as fair value cannot be reliably measured.

Revaluation of properties and investment properties

The properties' fair values are based on valuations performed by an accredited independent valuer. The fair value of the land and buildings were determined using market approach. Market approach means that the valuations performed by the valuer were based on transactions and advertised process for similar buildings in the market, applying comparison adjustments for location, condition age, listing, and similar factors.

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 have short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. Based on fair value assessments performed by the management, the estimated fair values of due from banks of more than one year approximate their carrying amounts as shown in the statement of financial position. This is due principally to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

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.

36. Fair value disclosures (contd.)

Fixed rate financial instruments (contd.)

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments in the financial statements where there is a significant difference between the two values which are categorized in level 2.

As at 31 December 2019	Carrying amount MNT'000	Fair value MNT'000
Financial assets		
Loans and advances to customers	3,503,151,646	3,571,368,119
Investment securities held to maturity	1,050,141,040	1,085,481,584
Total	**4,553,292,686**	**4,656,849,703**
Financial liabilities		
Due to customers	3,821,434,134	3,817,879,697
Borrowed funds	759,290,707	759,290,707
Debt securities issued	1,536,488,710	1,555,656,904
Total	**6,117,213,551**	**6,132,827,308**
As at 31 December 2018		
Financial assets		
Loans and advances to customers	3,226,363,877	3,272,758,257
Investment securities held to maturity	1,099,882,344	1,160,618,377
Total	**4,326,246,221**	**4,433,376,634**
Financial liabilities		
Due to customers	3,599,691,922	3,582,382,053
Borrowed funds	981,328,159	981,328,159
Debt securities issued	1,475,814,484	1,516,260,816
Total	**6,056,834,565**	**6,079,971,028**

37. Related party disclosures

The following are considered as related parties of the Bank:

- Ulaanbaatar City Bank (UBCity Bank) **-** The Bank's chairman is a controlling shareholder of UB City Bank.
- MNREC **-** The Bank owns 100% equity interest in MNREC as at 31 December 2019 (the investment has been fully written off and was recorded off-balance) (see Note 15 (f))
- Valiant Art LLC **-** The Bank's executive officer's immediate relative owns Valiant Art LLC as at 31 December 2019.
- TDB Capital LLC – The Bank owns 10% equity interest in TDB Capital LLC as at 31 December 2019.
- MIK – The Bank owns 9.99% equity interest in MIK Holding JSC as at 31 December 2019 and the Bank's shareholder may have significant influence over MIK in aggregate through other companies.
- Mongolian General Leasing LLC and its subsidiaries ("MGLL") – The Bank owns 10% equity interest in MGLL as at 31 December 2019
- National News Corporation LLC ("NNC") – The Bank owns 9.63% equity interest in NCC as at 31 December 2019
- JCDecaux LLC – The company is subsidiary of NNC
- CNB Consulting LLC ("CNB") – CEO of CNB is immediate family member of the beneficial owner of the Bank
- Absolute Management LLC – The company is owned by close family member of beneficial owner
- Key management personnel – Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors, Executive officers and their immediate relatives to be related parties.

37. Related party disclosures (contd.)

Significant transactions and balances with related parties as of 31 December 2019 and 2018 and for the years then ended were as follows:

	2019 MNT'000	**2018 MNT'000**
UBCity Bank		
Interest income	300,194	1,433,619
Interest expense	(5,118,588)	(1,360,972)
Deposits and placements with banks and other financial institutions	–	142
Deposits and placements by banks and other financial institutions	54,974,866	31,241,282
Loans and Advances	24,082	99
Syndicated risk participation fund	89,688,397	101,774,741
Undrawn credit lines	113,381	132,146
MIK		
Interest income	12,261,222	10,051,920
Interest expense	(62,181,212)	(4,451,461)
Fees and commission income	2,988,564	2,946,485
Investment securities	97,023,095	103,981,320
Deposits and placements by banks and other financial institutions	53,513,192	22,785
Loans and advances	36,110,330	11,295,246
Liabilities for loans sold to MIK with recourse	435,050,735	4,185,444
Other receivable	1,222,947	1,193,165
MGLL		
Interest income	2,722,582	244,226
Interest expense	(376,484)	(375,471)
Deposit placement by banks and other financial institutions	4,676,682	17,692,407
Loans and advances	24,083,047	17,610,937
Lease payables	1,434,626	1,424,871
Guarantees and Letters of credit	25,631,376	7,454,323
Undrawn credit lines	5,000	1,989
MNREC		
Other receivable	573,407	562,833
Valiant Art LLC		
Interest income	20,717	25,343
Loans to executive officer's related party	1,243,963	1,859,597
Deposit placement by banks and other financial institutions	169	–
Undrawn credit lines	859	371
TDB Capital		
Interest income	939,090	–
Interest expense	(165,570)	(530,360)
Fee and commission income	–	2,272
Deposit placement by banks and other financial institutions	847,624	1,650,331
Loans and advances	7,284,294	6,345,204
NNC		
Prepaid expenses and advances	2,933,953	–
Interest expense	–	(2,937)
Deposit placement by banks and other financial institutions	–	24,193
United Banking Corporation		
Sub-ordinated debt	150,046,057	–
Interest expense	45,833	–

37. Related party disclosures (contd.)

	2019 MNT'000	2018 MNT'000
Executive officers		
Interest income	870,930	748,713
Loans and advances	8,362,340	8,603,227

Key management have banking relationships with the Bank which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Total remuneration and employees benefit paid to the executive officers and directors for the years ended 31 December 2019 and 2018 amounted to MNT 9,053,454 thousand and MNT 8,632,459 thousand, respectively.

38. 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 35 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Assets			
Cash and balances with Bank of Mongolia	1,096,100,972	–	1,096,100,972
Due from other banks and financial institutions	289,840,576	11,540,696	301,381,272
Financial investments	864,536,050	968,080,720	1,832,616,770
Derivative financial instruments	423,151,021	71,710,735	494,861,756
Loans and advances to customers	1,445,676,836	2,057,474,810	3,503,151,646
Other assets	36,076,696	67,711,388	103,788,084
Investment property	–	80,897,528	80,897,528
Property and equipment	–	392,311,221	392,311,221
Right-of-use assets	–	12,717,699	12,717,699
Intangible assets	–	5,870,617	5,870,617
Total assets	4,155,382,151	3,668,315,414	7,823,697,565
Liabilities			
Due to banks and other financial institutions	189,383,778	–	189,383,778
Repurchase agreements	13,356	65,000,000	65,013,356
Due to customers	3,691,820,290	129,613,844	3,821,434,134
Derivative financial instruments	–	76,226,529	76,226,529
Borrowed funds	533,042,581	226,248,126	759,290,707
Sub-ordinated debt	45,833	150,000,224	150,046,057
Debt securities issued	1,376,488,710	160,000,000	1,536,488,710
Other liabilities	79,280,615	429,239,886	508,520,501
Lease liabilities	3,758,349	9,833,049	13,591,398
Total liabilities	5,873,833,512	1,246,161,658	7,119,995,170
Net*	**(1,718,451,361)**	**2,422,153,756**	**703,702,395**

38. Maturity analysis of assets and liabilities (contd.)

At 31 December 2018	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Assets			
Cash and balances with Bank of Mongolia	1,014,958,242	–	1,014,958,242
Due from other banks and financial institutions	268,512,559	12,084,448	280,597,007
Financial investments	544,695,793	1,257,911,350	1,802,607,143
Derivative financial instruments	–	379,263,246	379,263,246
Loans and advances to customers	986,991,872	2,239,372,005	3,226,363,877
Other assets	34,071,914	28,163,246	62,235,160
Investment property	–	80,114,526	80,114,526
Assets held for sale	64,869,626	–	64,869,626
Property and equipment	–	372,060,017	372,060,017
Intangible assets	–	2,776,409	2,776,409
Total assets	2,914,100,006	4,371,745,247	7,285,845,253
Liabilities			
Due to banks and other financial institutions	64,749,036	117,609,940	182,358,976
Repurchase agreements	13,356	65,000,000	65,013,356
Due to customers	3,480,618,600	119,073,322	3,599,691,922
Derivative financial instruments	1,515,973	–	1,515,973
Borrowed funds	396,512,237	584,815,922	981,328,159
Debt securities issued	14,567,726	1,461,246,758	1,475,814,484
Other liabilities	47,179,641	4,162,660	51,342,301
Total liabilities	4,005,156,569	2,351,908,602	6,357,065,171
Net*	**(1,091,056,563)**	**2,019,836,645**	**928,780,082**

*Certain classification of financial assets and liabilities were based on contractual 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.

39. Capital adequacy

The adequacy of the Bank's capital is monitored using the rules and ratios established by BoM.

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 healthy capital ratios to be able to absorb negative shocks.

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.

Regulatory capital

BoM requires commercial banks to maintain a minimum core capital adequacy ratio of 9% (2018: 9%) and risk weighted capital ratio of at least 12% (2018: 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 31 December were as follows:

	2019	2018
Core capital adequacy ratio	11.31%	17.07%
Risk-weighted capital ratio	17.04%	20.21%

39. Capital adequacy (contd.)

The capital adequacy ratios of the Bank as at 31 December were as follows:

	2019 MNT'000	2018 MNT'000
Tier I Capital		
Share capital	50,000,707	55,205,582
Share premium	19,298,006	210,393,158
Retained earnings	482,926,897	493,813,082
Total Tier I Capital	552,225,610	759,411,822
Tier II capital		
Revaluation surplus	129,231,895	129,231,895
Available-for-sale financial investment revaluation reserve*	–	10,738,119
Subordinated loan	150,046,057	–
Total Tier II Capital	279,277,952	139,970,014
Total capital /capital base	**831,503,562**	**899,381,836**

*Due to the amendment made to the Bank of Mongolia's capital adequacy requirement, Available-for-sale financial investment revaluation reserve is not included as a component to Tier II Capital as of 31 December 2019.

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

%	2019 Risk Assets MNT'000	2019 Weighted MNT'000	2018 Risk Assets MNT'000	2018 Weighted MNT'000
0	3,196,916,277	–	2,950,022,144	–
20	168,630,881	33,726,176	248,770,542	49,754,108
50	576,564,253	288,282,127	570,181,862	285,090,931
70	–	–	725,232,027	507,662,419
80	634,142,149	507,313,719	–	–
100	3,173,285,934	3,173,285,934	2,736,893,964	2,736,893,964
120	–	–	578,721,187	694,465,424
150	488,028,366	732,042,549	–	–
Adjustments:				
Operational risk ratio		63,215,152	–	110,970,885
Foreign exchange risk ratio		83,127,737	–	64,731,893
Total	**8,237,567,860**	**4,880,993,394**	**7,809,821,726**	**4,449,569,624**

40. Events after reporting date

One-time forgiveness of pension-secured loan debts

In accordance with the one-time forgiveness of pension secured loan debts law authorized by the Mongolian Parliament, they declared to repay all outstanding pension loan with individual balances of up to 6 million. The loan portfolio is to be exchanged for unquoted bonds "Erdenes" issued by Erdenes Mongol LLC. Accordingly, on 21 February 2020, the Bank has entered into an agreement with Erdenes Mongol LLC and has converted its outstanding pension loan portfolio into the bonds. The Pension loan had total outstanding balance of MNT 2.4 billion as of 31 December 2019. The bond has been sold to BoM on 12 May 2020.

Impact of Covid-19

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

On 11 March 2020, the World Health Organization declared the novel coronavirus, which has the potential to cause severe respiratory illness ("COVID-19"), a global pandemic. Government of Mongolia has declared a state of emergency in response to the COVID-19 pandemic.

40. Events after reporting date (contd.)

Impact of Covid-19 (contd.)

In order to mitigate the risks on economy and risks of disruption of loan repayments in the banking sector, the BoM has declared a temporary relief on certain requirements of the "Regulation on setting and monitoring prudential ratios to banking operation" and of the "Regulation on asset classification, provisioning and it disbursements" between 31 January 2020 through 31 July 2020 and further extended to 31 December 2020. The policy rate and the mandatory reserve requirement percentages have been reduced as well.

As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Bank's operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgments, estimates and assumptions made by management during the preparation of the Bank's financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

The Bank considers potential impacts of the current economic volatility in determination of the reported amounts of the Bank's financial and non-financial assets and these are considered to represent management's best assessment based on observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

Since the Bank's liquidity ratios has historically been constantly above the regulatory requirements, Management is of the view that the Bank doesn't have any liquidity problems during the period.

Merge with Ulaanbaatar City Bank

Ulaanbaatar City Bank has merged with the Bank as of 27 June 2020 in accordance with the shareholder resolutions of both banks and approval from the Bank of Mongolia.

Issuance of additional shares

On 22 December 2020, the Bank has issued additional 842,698 number of shares at MNT 178,000 per share under approval of BoM, thus increasing its issued capital.

41. Comparative information

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Extract from Statement of profit or loss	**2018 Audited MNT'000**	**Reclassification MNT'000**	**2018 Audited - reclassified MNT'000**
Interest and similar income	664,509,719		664,509,719
Interest and similar expense	(476,295,697)		(476,295,697)
Net interest income	**188,214,022**		**188,214,022**
Fee and commission income	50,364,170		50,364,170
Fee and commission expense	(12,421,789)		(12,421,789)
Net fee and commission income	**37,942,381**		**37,942,381**
Other operating income	38,776,831	(444,181)	38,332,650
Total operating income	**264,933,234**		**264,489,053**
Credit loss expense	(129,089,040)		(129,089,040)
Net operating income	**135,844,194**		**135,400,013**
Operating expenses	(91,165,197)	444,181	(90,721,016)
Profit before tax	**44,678,997**		**44,678,997**
Income tax expense	(250,109)		(250,109)
Profit for the year	**44,428,888**		**44,428,888**

41. Comparative information (contd.)

	2018 Audited MNT'000	Reclassification MNT'000	2018 Audited - reclassified MNT'000
Extract from Statement of financial position			
ASSETS			
Cash and due from banks	1,294,793,495	(1,294,793,495)	–
Cash and balances with Bank of Mongolia	–	1,014,958,242	1,014,958,242
Due from other banks and financial institutions	–	280,597,007	280,597,007
Financial investments	1,759,141,556	43,465,587	1,802,607,143
Derivative financial instruments	–	379,263,246	379,263,246
Loans and advances to customers	3,054,731,766	171,632,111	3,226,363,877
Other assets	627,139,041	(564,903,881)	62,235,160
Foreclosed properties	2,723,159	(2,723,159)	–
Investment property	80,114,526	–	80,114,526
Assets held for sale	64,869,626	–	64,869,626
Property and equipment	397,500,104	(25,440,087)	372,060,017
Intangible assets	2,776,409	–	2,776,409
TOTAL ASSETS	**7,283,789,682**	**2,055,571**	**7,285,845,253**
LIABILITIES			
Due to banks and other financial institutions	182,007,964	351,012	182,358,976
Repurchase agreements	65,000,000	13,356	65,013,356
Due to customers	3,522,766,676	76,925,246	3,599,691,922
Derivative financial instruments	–	1,515,973	1,515,973
Borrowed funds	975,825,981	5,502,178	981,328,159
Debt securities issued	1,461,246,758	14,567,726	1,475,814,484
Other liabilities	148,162,221	(96,819,920)	51,342,301
TOTAL LIABILITIES	**6,355,009,600**	**2,055,571**	**6,357,065,171**