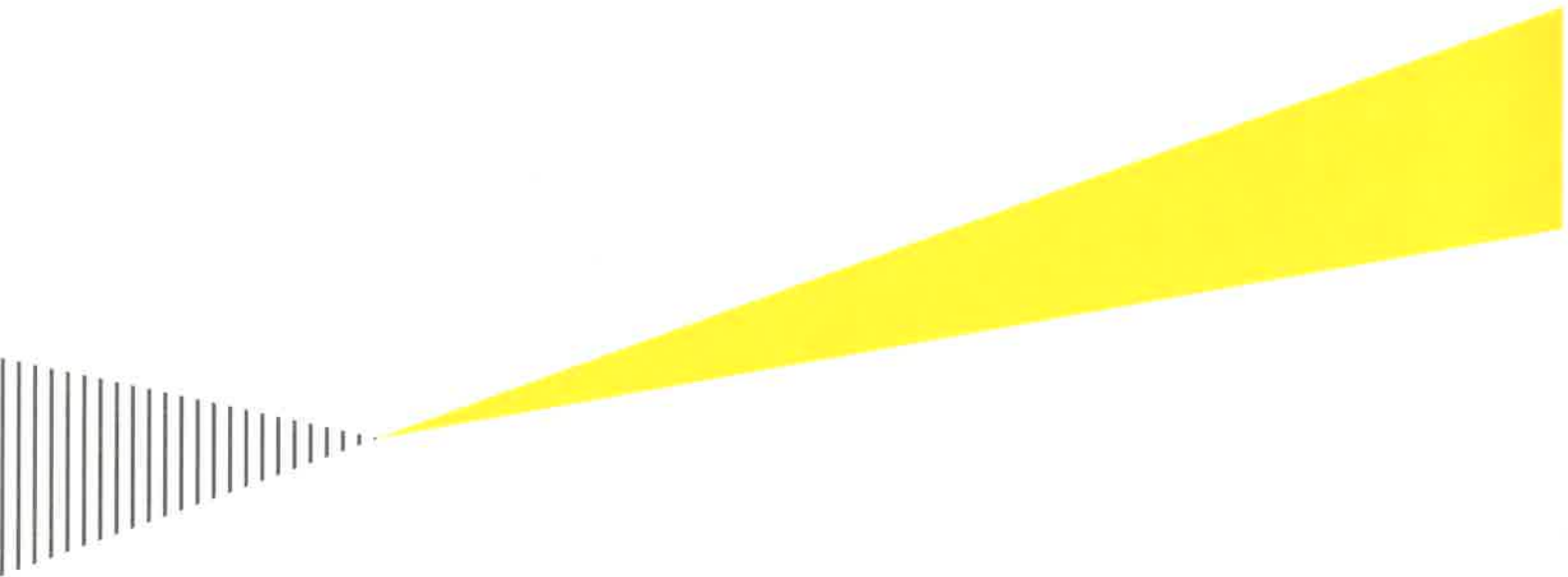


**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**  
**(Incorporated in Mongolia)**

**Audited Financial Statements**  
**31 December 2020**



# TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

## Audited financial statements

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## **TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

### **General information**

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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, 1 <sup>st</sup> khoroo, Ulaanbaatar 14210, Mongolia
Auditors	Ernst & Young Mongolia Audit LLC Certified Public Accountants

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Statement by chairman and executives**

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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 2020, 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.



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**Erdenebileg Doljin**  
Chairman of the Board of Directors



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**Enkhtuya Dulamjav**  
Chief Financial Officer

Ulaanbaatar, Mongolia  
Date: 31 March 2021

## INDEPENDENT AUDITOR'S REPORT

### To the shareholders of Trade and Development Bank of Mongolia LLC

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#### 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 2020, 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 2020, 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.

#### 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.

**INDEPENDENT AUDITOR'S REPORT (CONTD.)**

**To the shareholders of Trade and Development Bank of Mongolia LLC**

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**Auditor's Responsibilities for the Audit of the Financial Statements (contd.)**

- 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 preparation 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.

**Other Matter**

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 Article 94 of the Company Law of Mongolia 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**



Mandakhbayar Dorjbat  
Director

**Approved by**



Adrian Chu  
Partner

Ulaanbaatar, Mongolia  
Date: 31 March 2021

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Statement of profit or loss and other comprehensive income**

**For the year ended 31 December 2020**

	Notes	2020 MNT'000	2019 MNT'000
Interest and similar income	7	707,870,414	701,609,264
Interest and similar expense	8	(506,145,302)	(521,699,037)
<b>Net interest income</b>		<b><u>201,725,112</u></b>	<b><u>179,910,227</u></b>
Fee and commission income	9	54,072,967	55,442,199
Fee and commission expense	9	(14,708,811)	(15,069,569)
<b>Net fee and commission income</b>		<b><u>39,364,156</u></b>	<b><u>40,372,630</u></b>
Other operating income/(expense)	10	(5,672,447)	32,067,455
<b>Total operating income</b>		<b><u>235,416,821</u></b>	<b><u>252,350,312</u></b>
Credit loss expense	11	(64,675,317)	(58,086,927)
<b>Net operating income</b>		<b><u>170,741,504</u></b>	<b><u>194,263,385</u></b>
Operating expenses	12	(131,602,195)	(129,888,474)
Share of loss of an associate	17	(14,501,873)	-
<b>Profit before tax</b>		<b><u>24,637,436</u></b>	<b><u>64,374,911</u></b>
Income tax expense	13.1	(3,660,409)	(206)
<b>Profit for the year</b>		<b><u><u>20,977,027</u></u></b>	<b><u><u>64,374,705</u></u></b>
<b>Other comprehensive income/(loss) (net of tax):</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Net unrealised change in fair value of available-for-sale financial assets	33	(1,424,125)	11,506,771
Net unrealised loss on valuation of cash flow hedges		-	(29,398,246)
<b>Other comprehensive loss</b>		<b><u>(1,424,125)</u></b>	<b><u>(17,891,475)</u></b>
<b>Total comprehensive income for the year, net of tax</b>		<b><u><u>19,552,902</u></u></b>	<b><u><u>46,483,230</u></u></b>

*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 2020**

	Notes	2020 MNT'000	2019 MNT'000
<b>ASSETS</b>			
Cash and balances with Bank of Mongolia	14	856,968,353	1,096,100,972
Due from other banks and financial institutions	15	570,008,607	301,381,272
Financial investments	16	1,711,998,541	1,832,616,770
Investment in associate	17	40,813,475	–
Derivative financial instruments	18	89,371,192	494,861,756
Loans and advances to customers	19	4,108,718,370	3,503,151,646
Other assets	20	112,659,306	103,788,084
Investment property	21	148,990,218	80,897,528
Assets held for sale	22	4,138,693	–
Property and equipment	23	458,644,011	392,311,221
Right-of-use assets	24	10,132,850	12,717,699
Intangible assets	25	4,374,414	5,870,617
<b>TOTAL ASSETS</b>		<b><u>8,116,818,030</u></b>	<b><u>7,823,697,565</u></b>
<b>LIABILITIES</b>			
Due to banks and other financial institutions	26	102,946,144	189,383,778
Repurchase agreements	27	224,287,616	65,013,356
Due to customers	28	5,311,418,183	3,821,434,134
Derivative financial instruments	18	99,723,102	76,226,529
Borrowed funds	29	558,736,354	759,290,707
Sub-ordinated debt	30	–	150,046,057
Debt securities issued	31	160,140,274	1,536,488,710
Other liabilities	32	628,403,246	508,520,501
Lease liabilities	24	11,384,522	13,591,398
Income tax liabilities	13.2	111,957	–
Deferred tax liabilities	13.3	2,155,509	–
<b>TOTAL LIABILITIES</b>		<b><u>7,099,306,907</u></b>	<b><u>7,119,995,170</u></b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK</b>			
Share capital	33	72,723,171	50,000,707
Share premium	33	251,086,754	19,298,006
Other reserves	33	193,056,881	151,476,785
Retained earnings		500,644,317	482,926,897
<b>TOTAL EQUITY</b>		<b><u>1,017,511,123</u></b>	<b><u>703,702,395</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>8,116,818,030</u></b>	<b><u>7,823,697,565</u></b>

*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 2020

	Share capital MNT'000 (Note 33)	Share premium MNT'000 (Note 33)	Other reserves MNT'000 (Note 33)	Retained earnings MNT'000	Total equity MNT'000
At 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)
<b>Total comprehensive income</b>	–	–	<b>(17,891,475)</b>	<b>64,374,705</b>	<b>46,483,230</b>
Reversal of issued shares	(5,204,875)	(191,095,152)	–	–	(196,300,027)
Additional provision related to regulatory requirements (Note 16)	–	–	–	(75,260,890)	(75,260,890)
<b>At 31 December 2019 and 1 January 2020</b>	<b>50,000,707</b>	<b>19,298,006</b>	<b>151,476,785</b>	<b>482,926,897</b>	<b>703,702,395</b>
Profit for the year	–	–	–	20,977,027	20,977,027
Other comprehensive income	–	–	(1,424,125)	–	(1,424,125)
<b>Total comprehensive income</b>	–	–	<b>(1,424,125)</b>	<b>20,977,027</b>	<b>19,552,902</b>
Realised revaluation reserve	–	–	(17,689)	17,689	–
Recycling of reserves due to recognition of an associate in relation to the Merger (See Note 17)	–	–	3,277,296	(3,277,296)	–
Transfer from UBCB (Note 6)	–	–	39,744,614	–	39,744,614
Issuance of additional shares in relation to the Merger (Note 6)	9,973,842	94,537,126	–	–	104,510,968
Issuance of additional shares (Note 33)	12,748,622	137,251,622	–	–	150,000,244
<b>At 31 December 2020</b>	<b>72,723,171</b>	<b>251,086,754</b>	<b>193,056,881</b>	<b>500,644,317</b>	<b>1,017,511,123</b>

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

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Statement of cash flows**

**For the year ended 31 December 2020**

	Notes	2020 MNT'000	2019 MNT'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit before tax</b>		24,637,436	64,374,911
<i>Adjustments for:</i>			
Changes in fair value of financial derivatives		7,287,137	(40,597,385)
Hedge ineffectiveness on financial derivatives	10	–	(29,688,815)
(Gain)/Loss on disposal of investment securities	10	(3,544,575)	5,059,717
Valuation gain on investment property	10	(20,122,404)	(783,002)
(Gain)/Loss on disposal of assets-held-for sale	10	(3,022,069)	626,152
Deemed gain on investment in associate	10	(768,590)	–
Gain on disposal of property and equipment	10	(169,780)	–
Net modification loss from project mortgage loans	10	5,592,847	–
Loss on disposal of foreclosed properties, net	10	365,423	100,204
Share of loss in associate	17	14,501,873	–
Credit loss expense on:			
Loans and advances to customers	11	43,917,310	41,897,020
Foreclosed properties	11	7,337,693	16,599,541
Credit commitment	11	(652,177)	(695,052)
Due from other banks and financial institutions	11	(440,001)	156,638
Other assets	11	14,512,492	118,780
Investment securities	11	–	10,000
Depreciation of property and equipment	12	12,977,972	10,315,416
Amortisation of intangible assets	12	2,421,188	2,101,911
Depreciation of rights-of-use assets	12	4,865,339	3,930,742
Property and equipment written off	12	34,119	7,678,098
Intangible assets written off	12	346,076	–
Interest expense of borrowed funds		111,325,297	79,305,409
Interest expense of sub-ordinated debts		20,666,526	45,833
Interest expense of debt securities issued		64,729,464	144,234,052
Accretion of interest on lease liability		1,821,379	2,135,697
Non-cash items arising from financing activities		45,336,899	80,303,860
<b>Operating profit before working capital changes</b>		<b>353,956,874</b>	<b>387,229,727</b>
Changes in operating assets and liabilities:			
Statutory deposits with BoM		(128,337,531)	(54,386,227)
Due from other banks and financial institutions		65,835,770	(32,498,664)
Loans and advances to customers		154,965,035	(318,684,789)
Assets-held-for sale		5,953,514	4,465,295
Other assets		21,112,053	1,406,730
Due to banks		(104,335,246)	7,024,802
Repurchase agreements		150,847,622	–
Due to customers		681,415,078	221,742,212
Other liabilities		(29,327,557)	457,873,252
<b>Cash generated from operations</b>		<b>1,172,085,612</b>	<b>674,172,338</b>
Income taxes paid		(5,470,061)	(206)
Interest portion of the lease liability paid		(1,821,379)	(2,135,697)
Interest paid on borrowed funds		(123,622,668)	(81,644,198)
Interest paid on sub-ordinated debt		(20,712,359)	–
Interest paid on debt securities issued		(78,299,373)	(144,596,808)
<b>Net cash flows generated from operating activities</b>		<b>942,159,772</b>	<b>445,795,429</b>

*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 2020**

	Notes	2020 MNT'000	2019 MNT'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash addition as a result of the Merger	6	7,705,567	–
Purchase of financial investments		(149,727,966)	(212,772,725)
Proceeds from disposal of financial investments		368,144,729	267,667,416
Proceeds from disposal of property and equipment		3,770,943	–
Purchase of property and equipment	23	(4,919,708)	(38,581,897)
Purchase of intangible assets	25	(381,917)	(4,858,940)
<b>Net cash flows generated from investing activities</b>		<b>224,591,648</b>	<b>11,453,854</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from drawdown of borrowed funds		359,758,646	384,317,370
Repayment of borrowed funds		(596,544,559)	(625,683,787)
Proceeds from debt securities		–	2,400,876
Net proceeds from maturity of derivative financial instruments		421,700,000	–
Repayment of debt securities		(1,397,320,000)	–
(Repayment of)/Proceeds from issuance of sub-ordinated debts		(150,000,224)	150,000,224
Proceeds from/(payment for reversal of) issuance of shares	33	150,000,244	(196,300,027)
Payment of principal portion of lease liabilities		(4,317,826)	(3,057,043)
<b>Net cash flows used in financing activities</b>		<b>(1,216,723,719)</b>	<b>(288,322,387)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(49,972,299)</b>	<b>168,926,896</b>
Cash and cash equivalents brought forward	35	1,426,345,590	1,257,418,694
<b>Cash and cash equivalents carried forward</b>	35	<b>1,376,373,291</b>	<b>1,426,345,590</b>
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>			
Interest paid		(483,879,585)	(514,345,092)
Interest received		542,726,441	597,185,752
<b>NON-CASH ACTIVITIES</b>			
Additions to right-of-use assets and lease liabilities	24	1,682,331	1,043,140
Transfer from financial investments to investment in associates	17	26,876,310	–
Foreclosure of collaterals		52,892,702	–
Transfers from property and equipment to intangible assets		–	337,179
Transfers from assets-held-for sale to foreclosed properties		–	59,722,713
<b>Reconciliation of changes in liabilities arising from financing activities:</b>			
		<b>2020</b>	<b>2019</b>
<b>Lease liabilities</b>		<b>MNT'000</b>	<b>MNT'000</b>
At 1 January		13,591,398	15,605,301
Non-cash additions		1,682,331	1,043,140
Transfer from UBCB		970,544	–
Termination of lease		(541,925)	–
Interest expense during the year		1,821,379	2,135,697
Interest portion of the lease liabilities paid		(1,821,379)	(2,135,697)
Principal portion of lease liabilities paid		(4,317,826)	(3,057,043)
<b>At 31 December</b>		<b>11,384,522</b>	<b>13,591,398</b>

*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 2020**

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

	<b>Borrowed funds MNT'000</b>	<b>Sub-ordinated debts funds MNT'000</b>	<b>Debt securities issued MNT'000</b>
<b>At 1 January 2019</b>	<b>981,328,159</b>	–	<b>1,475,814,484</b>
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)/drawdown	<u>(323,010,615)</u>	<u>150,000,224</u>	<u>(142,195,932)</u>
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	<u>21,667,754</u>	<u>–</u>	<u>58,636,106</u>
Interest expense accrued	79,305,409	45,833	144,234,052
<b>At 31 December 2019 and 1 January 2020</b>	<b><u>759,290,707</u></b>	<b><u>150,046,057</u></b>	<b><u>1,536,488,710</u></b>
New disbursement	359,758,646	–	–
Transfer from UBCB (Note 6)	37,733,505	–	–
Repayment	(596,544,559)	(150,000,224)	(1,397,320,000)
Interest repayment	(123,622,668)	(20,712,359)	(78,299,373)
Net repayment	<u>(322,675,076)</u>	<u>(170,712,583)</u>	<u>(1,475,619,373)</u>
Deferral disbursement	(7,538,698)	–	–
Deferral amortisation	8,114,179	–	5,360,502
Foreign exchange movement	10,219,945	–	29,180,971
Non-cash items arising from financing activities	<u>10,795,426</u>	<u>–</u>	<u>34,541,473</u>
Interest expense accrued	111,325,297	20,666,526	64,729,464
<b>At 31 December 2020</b>	<b><u><u>558,736,354</u></u></b>	<b><u><u>–</u></u></b>	<b><u><u>160,140,274</u></u></b>

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

## TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

### Notes to the financial statements - 31 December 2020

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#### 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 khoroо, Ulaanbaatar 14210, Mongolia.

On 26 June 2020, it was announced that the Bank and Ulaanbaatar City Bank LLC (“UBCB”), were officially merged under BoM resolution no. H/100 dated 23 June 2020 under the Banking law. The merger was governed by a Merger Agreement between the Bank and UBCB of which all assets, liabilities, reserves and branches of UBCB were to be merged into the Bank, taking effect from 26 June 2020 (the “Merger”) (See Note 6).

As at 31 December 2020, the Bank is 45.26% owned by Globull Investment and Development SCA (“Globull”), which is incorporated in Luxembourg. Globull is wholly owned by US Global Investment LLC, which is incorporated in the United States of America. (See Note 33 for the shareholders of the Bank and percentage of ownership).

The financial statements for the year ended 31 December 2020 were authorised for issue in accordance with the resolution of the board of directors on 31 March 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, 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 40.

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 2020. Except for the amendment to IFRS 16 below, the Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

#### **Amendments to IFRS 3: Definition of a Business**

The amendments to IFRS 3 Business Combinations clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

#### **Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform**

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

#### **Amendments to IAS 1 and IAS 8 Definition of Material**

The amendments provide a new definition of material that states, “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 clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Bank.

#### **Conceptual Framework for Financial Reporting issued on 29 March 2018**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

#### **Amendments to IFRS 16 Covid-19 Related Rent Concessions**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. This amendment had no material impact on the financial statements of the Bank as the rent concession from a lessor was resulted by Covid-19 impact or not treated as lease modification under IFRS 16.

### **4. Summary of significant accounting policies**

#### **Foreign currency translation**

The financial statements are presented in Mongolian Togrog (“MNT”), which is also the Bank's 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.

#### 4. Summary of significant accounting policies (contd.)

##### Investment in associate

The Bank's investment in associate is accounted for using the equity method. An associate is an entity in which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policies.

Under the equity method, the investment in an associate is carried on the statement of financial position at cost plus post acquisition changes in the Bank's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of profit and loss and other comprehensive income reflects the Bank's share on the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Bank recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The Bank's share of profit of an associate is shown on the face of the statement profit or loss and other comprehensive income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate, if any.

The financial statements of the associate are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in profit and loss.

Upon loss of significant influence over the associate, the Bank measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

##### 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 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.

###### *Borrowed funds and debt securities issued*

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

After initial measurement, borrowed funds and debt securities issued are subsequently measured at amortised cost using the EIR. The amortised cost of borrowed funds and debt securities issued 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 and debt securities issued (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 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. Additional provisions relating to regulatory reviews are charged directly to equity when requested by the regulator.

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, including 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.

#### 4. Summary of significant accounting policies (contd.)

##### Impairment of financial assets (contd.)

###### *Loans and receivables (contd.)*

BoM Provisioning Guidelines on off-balance assets and contingent liabilities 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.

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.

#### 4. Summary of significant accounting policies (contd.)

##### Recognition of income and expenses (contd.)

###### *Interest income and expense (contd.)*

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.

###### *Fees and commission income*

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees and commission income are recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations, as explained further below.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified below). The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

###### *Fee and commission income from services where performance obligations are satisfied over time*

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

###### *Fee income from providing transaction services*

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

###### *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 drawn down, the loan commitment fees are recognised as revenue on expiry.

###### *Fees 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 buildings 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 profit or loss as incurred.

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

**4. Summary of significant accounting policies (contd.)**

**Property and equipment (contd.)**

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 profit or loss, in which case, the increase is recognised in profit or loss. A revaluation deficit is recognised in 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.

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:

<u>Type of Asset</u>	<u>Estimated Useful Life in Years</u>
Buildings and land	25 – 60
Office equipment and vehicles	3 – 15
Computers and others	2 – 13

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.

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. 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 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**

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.

#### **4. Summary of significant accounting policies (contd.)**

##### **Leases (contd.)**

###### *Lease liabilities (contd.)*

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.

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).

#### **4. Summary of significant accounting policies (contd.)**

##### **Investment property (contd.)**

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.

##### **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.



#### **4. Summary of significant accounting policies (contd.)**

##### **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.

##### **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.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 39.

##### 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.

- |   |  |
|---|--|
| • Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16                  | <i>Interest Rate Benchmark Reform – Phase 2 amendments<sup>1</sup></i>                                   |
| • IFRS 17   | <i>Insurance Contracts<sup>3</sup></i>   |
| • Amendments to IFRS 17   | <i>Insurance Contracts<sup>3</sup></i>   |
| • Amendments to IAS 1   | <i>Classification of Liabilities as Current or Non-current<sup>3</sup></i>                               |
| • Amendments to IFRS 3  | <i>Reference to the Conceptual Framework<sup>2</sup></i>   |
| • Amendments to IAS 16  | <i>Property, Plant and Equipment: Proceeds before Intended Use<sup>2</sup></i>                           |
| • Amendments to IAS 37  | <i>Onerous Contracts – Costs of Fulfilling a Contract<sup>2</sup></i>                                    |
| • IFRS 1 First-time adoption of International Financial Reporting Standards | <i>Subsidiary as a first-time adopter<sup>2</sup></i>  |
| • Illustrative Examples accompanying IFRS 16 Leases                         | <i>Lease Incentives<sup>2</sup></i>  |
| • IAS 41 Agriculture  | <i>Taxation in fair value measurements<sup>2</sup></i>   |
| • Amendments to IFRS 10 and IAS 28  | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i> |

<sup>1</sup>Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup>Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup>Effective for annual periods beginning on or after 1 January 2023

<sup>4</sup>No mandatory effective date yet determined but available for adoption

#### 4. Summary of significant accounting policies (contd.)

##### Standards issued but not yet effective (contd.)

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

In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a risk free rate (RFR).

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a RFR. Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives.

For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. The Bank is currently in the process of assessing the impact of adopting IBOR reform Phase 2 from 1 January 2021 on its financial statements and is not expected to have a material impact on the Bank.

##### *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) that was issued in 2005. 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. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 Revenue from Contracts with Customers or

IAS 37 Provisions, Contingent Liabilities and Contingent Assets) to the other components Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standards are not expected to have an impact on the Bank.

#### 4. Summary of significant accounting policies (contd.)

##### Standards issued but not yet effective (contd.)

###### *Amendments to IFRS 17 Insurance Contracts*

Amendments to IFRS 17 include changes to simplify certain requirements in the standard and make financial performance easier to explain. The amendments also provide additional reliefs to reduce the effort required for the transition to IFRS 17. In addition, the amendments defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023 with earlier application permitted. The amendments are not expected to have any impact on the Bank.

###### *Amendments to IAS 1: Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability does not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

###### *Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16*

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

###### *Reference to the Conceptual Framework – Amendments to IFRS 3*

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have an impact on the Bank.

###### *Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37*

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

#### 4. Summary of significant accounting policies (contd.)

##### Standards issued but not yet effective (contd.)

###### *IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter*

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have an impact on the Bank.

###### *IAS 41 Agriculture – Taxation in fair value measurements*

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have an impact on the Bank.

###### *Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments were originally effective for a financial period beginning on or after 1 January 2016. In January 2016, the effective date of these amendments were deferred because the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. A new effective date will be determined at a future date when the IASB finalises its broader review. However, the amendments are available for adoption now. The amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

#### 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.

##### **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 profit or loss and disclosed in more detail in Note 11 and Note 19.

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

**Fair value of derivative financial instruments**

When the fair value of derivative financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions could affect the reported fair value of derivative financial instruments. See Note 38 for further disclosures.

**6. Merger with Ulaanbaatar City Bank LLC**

On 8 June 2020, the Shareholders of UBCB passed a resolution to cease the operation and abolish UBCB to be merged with the Bank. UBCB was an unlisted company based in Ulaanbaatar and operated as a retail bank with 15 branches and approximately 400 employees as of 26 June 2020.

The banks had common beneficial owner and hence the management has accounted for the Merger as business combination under common control as of 26 Jun 2020, i.e. scoped out of IFRS 3 Business combinations and applied the pooling of interest method accounting prospectively. Both the Bank's and UBCB's financial statements were prepared using uniform accounting policies and applied consistently.

The carrying amounts of the assets and liabilities of UBCB as at the date of the Merger are as follows:

	<b>26 June 2020</b>
	<b>MNT'000</b>
<b>ASSETS</b>	
Cash and balances with Bank of Mongolia*	7,705,567
Due from other banks and financial institutions	106,323,028
Financial investments	30,443,201
Investment in an associate	27,670,448
Loans and advances to customers	862,934,618
Other assets	48,768,904
Investment properties	5,631,893
Property and equipment	78,026,336
Right-of-use assets	1,085,892
Intangible assets	889,144
<b>TOTAL ASSETS</b>	<b><u>1,169,479,031</u></b>
<b>LIABILITIES</b>	
Due to customers	808,568,971
Repurchase agreements	8,426,638
Due to banks and other financial institutions	17,897,612
Borrowed funds	37,733,505
Other liabilities	149,862,479
Lease liabilities	970,544
Deferred tax liabilities	1,763,700
<b>TOTAL LIABILITIES</b>	<b><u>1,025,223,449</u></b>
<b>NET ASSET</b>	<b><u>144,255,582</u></b>

\*Represents net inflow of cash and cash equivalents included in cash flows from investing activities.

All assets, liabilities, reserves and branches of UBCB were merged into the Bank, with effect from 26 June 2020, by issuing 659,282 new shares, with a par value of MNT 15,128 each. Revaluation reserve relating to the revaluation of buildings and land amounting to MNT 39,744,614 thousand were transferred to Asset revaluation reserve and the remaining balance of the net assets of UBCB of MNT 94,537,126 thousand were recognised as share premium (See Note 33).

If the Merger had taken place at the beginning of 2020, the Bank's interest and similar income would have been MNT 761,146,201 thousand and Profit before tax would have been MNT 13,396,452 thousand.

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**7. Interest and similar income**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Loans and advances to customers	504,880,714	438,487,359
Investment securities	185,324,204	236,316,801
Cash and balances with BoM	10,054,972	13,467,842
Due from banks and financial institutions	7,366,110	12,196,782
Reverse repurchase agreements	244,414	1,140,480
	<b><u>707,870,414</u></b>	<b><u>701,609,264</u></b>

In 2020, interest income from investment securities include interest income from government bonds amounting to MNT 138,672,295 thousand (2019: MNT 160,505,875 thousand), which are tax exempt incomes.

**8. Interest and similar expenses**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Due to customers	263,072,945	254,928,316
Borrowed funds	119,439,476	86,835,019
Debt securities issued	70,089,966	156,708,164
Sub-ordinated debt	20,666,526	45,833
Due to banks and financial institutions	24,044,755	15,608,004
Repurchase agreements	7,010,255	5,438,004
Lease liability (Note 24)	1,821,379	2,135,697
	<b><u>506,145,302</u></b>	<b><u>521,699,037</u></b>

**9. Net fees and commission income**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
<b>Fees and commission income</b>		
Card service	22,147,477	25,526,257
Loan related service	16,034,765	13,303,670
Wire transfer	10,248,276	11,154,328
Mobile and internet-banking service	3,435,793	3,192,494
Others	2,206,656	2,265,450
	<b><u>54,072,967</u></b>	<b><u>55,442,199</u></b>
<b>Fees and commission expenses</b>		
Card service charges	11,667,136	12,473,227
Others	3,041,675	2,596,342
	<b><u>14,708,811</u></b>	<b><u>15,069,569</u></b>
<b>Net fees and commission income</b>	<b><u>39,364,156</u></b>	<b><u>40,372,630</u></b>

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**10. Other operating (expenses)/income**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Gain/(loss) on disposal of securities, net	3,544,575	(5,059,717)
Valuation gain on investment property (Note 21)	20,122,404	783,002
Precious metal trading gain/(loss), net	1,657,337	2,122,005
Gain/(loss) on disposal of asset-held-for sale, net	3,022,069	(626,152)
Gain/(loss) on disposal of foreclosed properties, net	(365,423)	(100,204)
Gain on disposal of property and equipment, net	169,780	–
Deemed gain on investment in associates (Note 17)	768,590	–
Net swap interest income/(expense)	(5,072,115)	594,042
Net modification loss from project mortgage loans (Note 19)	(5,592,847)	–
Unrealised gain/(loss) on fair valuation of cross currency interest rate swaps	(6,983,603)	1,500,797
Foreign exchange gain/(loss), net	(17,512,007)	1,422,905
Hedge ineffectiveness (Note 18)	–	29,688,815
Others	568,793	1,741,962
	<b>(5,672,447)</b>	<b>32,067,455</b>

**11. Credit loss expense**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Loans and advances to customers (Note 19)	43,917,310	41,897,020
Foreclosed properties (Note 20)	7,337,693	16,599,541
Due from other banks and financial institutions (Note 15)	(440,001)	156,638
Other assets (Note 20)	14,512,492	118,780
Investment securities	–	10,000
Credit commitment (Note 36)	(652,177)	(695,052)
	<b>64,675,317</b>	<b>58,086,927</b>

**12. Operating expenses**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Personnel expense	53,374,168	46,915,912
Professional services fee	21,910,928	10,553,627
Depreciation on property and equipment (Note 23)	12,977,972	10,315,416
Insurance	6,841,023	9,364,230
Advertising and public relations	6,558,443	12,070,066
IT maintenance	5,048,774	4,220,135
Depreciation of right-of-use assets (Note 24)	4,865,339	3,930,742
Technical assistance and foreign bank remittance fee	3,181,143	3,390,193
Amortisation of intangible asset (Note 25)	2,421,188	2,101,911
Communication	2,316,802	1,724,410
Stationery and supplies	1,533,807	1,870,499
Utility expenses	1,039,742	955,906
Repairs and maintenance	915,499	3,699,082
Reception and entertainment	478,578	1,631,407
Rental expense	408,258	796,128
Cash handling	392,553	770,784
Transportation	356,782	593,576
Write-off of intangible assets (Note 25)	346,076	–
Business travel expenses	296,763	2,026,543
Security	145,750	283,230
Training expenses	139,846	367,493
Write-off of property and equipment (Note 23)	34,119	7,678,098
Others	6,018,642	4,629,086
	<b>131,602,195</b>	<b>129,888,474</b>



**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**13. Income taxes**

**13.1 Income tax expense**

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

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
<b>Income tax:</b>		
Current income tax	1,101,888	206
Understatement of prior year income tax (Note 36)	4,480,130	–
<b>Deferred tax:</b>		
Relating to temporary differences (Note 13.3)	(1,921,609)	–
	<u><b>3,660,409</b></u>	<u><b>206</b></u>

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

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

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Profit before income tax	<u>24,637,436</u>	<u>64,374,911</u>
Tax at statutory rate of 25% (2019: 25%)	6,159,359	16,093,728
Effect of expenses not deductible for income tax purpose	26,964,573	27,247,149
Unrecognised deferred tax asset	–	609,759
Special tax rate	1,067,568	206
Tax rate difference	1,258,785	(2,139,481)
Effect of non-taxable income	(1,601,932)	(1,684,686)
Effect of income exempted from taxation	(34,668,074)	(40,126,469)
Adjustment in respect of current income tax of prior years	<u>4,480,130</u>	<u>–</u>
Tax expense	<u><b>3,660,409</b></u>	<u><b>206</b></u>

As at 31 December 2020, the Bank has available tax losses of MNT 6,097,594 thousand (2019: MNT 40,813,295 thousand) that are available to offset against future taxable profits for the next two or four financial years depending on when the loss had arisen. 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 four years available against which the tax losses carried forward can be utilised.

The effective income tax rate for 2020 is 14.86% (2019: 0%).

**13.2 Income tax liabilities**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Income tax liability as at 1 January	–	–
Income tax expense for the year	5,582,018	206
Tax paid	(5,470,061)	(206)
<b>Income tax liability as at 31 December</b>	<u><b>111,957</b></u>	<u><b>–</b></u>

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2020

13. Income taxes (contd.)

13.3 Deferred tax liabilities

	2020 MNT'000	2019 MNT'000
<b>Deferred tax liability/(asset)</b>		
Revaluation of financial investments –available-for-sale	2,677,562	–
Revaluation of derivative financial instruments	(548,280)	–
Share of profit of an associate	(20,645)	–
Lease liability and ROU asset	46,872	–
	<u>2,155,509</u>	<u>–</u>

	Recognised in other comprehensive income MNT'000	Recognised in profit or loss MNT'000	Transfer from UBCB MNT'000	Total MNT'000
<b>Deferred tax (asset)/liability</b>				
Revaluation of financial investments – available-for-sale	2,677,562	–	–	2,677,562
Revaluation of derivative financial instruments	–	(548,280)	–	(548,280)
Share of profit of an associate	(364,144)	(1,373,329)	1,716,828	(20,645)
Lease liability and ROU asset	–	–	46,872	46,872
	<u>2,313,418</u>	<u>(1,921,609)</u>	<u>1,763,700</u>	<u>2,155,509</u>

14. Cash and balances with Bank of Mongolia

	2020 MNT'000	2019 MNT'000
Cash on hand	67,040,947	77,491,509
Current accounts with BoM	789,927,406	565,692,561
Deposits with BoM	–	360,894,217
Overnight deposit with BoM	–	92,022,685
	<u>856,968,353</u>	<u>1,096,100,972</u>

Current accounts with BoM are maintained in accordance with BoM regulations. The balances maintained with BoM are determined at not less than 6.0% (2019: 10.5%) of customer deposits for local currency and not less than 15.0% (2019: 12.0%) of customer deposits for foreign currency based on average balance of two weeks. As at 31 December 2020, the average reserves required by BoM for that period of two weeks were MNT 168,376,157 thousand (2019: MNT 215,545,776 thousand) for local currency and MNT 425,158,583 thousand (2019: MNT 249,651,434 thousand) for foreign currency maintained on current accounts with BoM.

15. Due from other banks and financial institutions

	2020 MNT'000	2019 MNT'000
Current accounts with foreign banks and financial institutions	422,344,623	120,055,248
Placement with foreign bank as cash collateral	143,779,003	15,250,230
Current accounts with local banks and financial institutions	2,383,173	956,071
Placement with local banks and financial institutions*	1,501,808	165,119,723
	<u>570,008,607</u>	<u>301,381,272</u>

\*Included in the placements with local banks and financial institutions as at 31 December 2019 is a cash guarantee held with UBCB under a syndicated risk participation agreement of MNT 75,040,000 thousand and USD 4,595 thousand. The funds had a respective allowance for losses which were fully reversed during the year upon the Merger of the two banks (Note 6 and 11).

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**16. Financial investments**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
<b>Available-for-sale investment securities</b>		
Unquoted BoM treasury bills (a)	688,492,320	598,900,912
Residential mortgage-backed securities (b)	127,666,125	97,023,096
Equity securities, at fair value (c)	27,108,838	53,412,762
Quoted government bonds (d)	25,542,064	29,262,345
Unquoted equity securities, at cost (e)	7,313,358	3,876,615
Reposessed assets (f)	92,257,890	92,257,890
Allowance for reposessed assets	<u>(92,257,890)</u>	<u>(92,257,890)</u>
	<b><u>876,122,705</u></b>	<b><u>782,475,730</u></b>
<b>Held-to-maturity investment securities</b>		
Government bonds (g)	769,901,041	984,163,506
Development Bank of Mongolia bonds (h)	<u>65,974,795</u>	<u>65,977,534</u>
	<b><u>835,875,836</u></b>	<b><u>1,050,141,040</u></b>
	<b><u>1,711,998,541</u></b>	<b><u>1,832,616,770</u></b>

- (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 19).
- (c) Equity securities at fair value as at 31 December 2019 included investment of 9.99% of equity stakes in MIK amounting to MNT 31,035,000 thousand, which were classified as an investment in associate upon the Merger (see Note 17). The rest of the balance relates to the equity stake in Visa Inc.
- (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. 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 the shareholders of 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 reposessed assets in 2018 as a result of Assets Quality Review conducted by the BoM. In 2019, the Bank further recognised in the retained earnings MNT 75,260,890 thousand of loss allowance as directed by BoM.
- (g) Government bonds are unquoted interest-bearing bonds issued by the Government of Mongolia.
- (h) Development Bank of Mongolia (DBM) bonds are unquoted interest-bearing long-term bonds issued by DBM under the ASEM project.

**17. Investment in associate**

As of 31 December 2020, the Bank holds 19.99% (2019: 9.99%) (or effective holding around 27.15% (2019: 13.57%) taking into account of the effect of treasury shares) in MIK. The Bank started to account for the investment as an associate upon the Merger.

MIK's principal activities include purchasing of mortgage pools by issuing RMBS securitised by those mortgage pools in Mongolia or proceeds from its senior notes issued in the international capital market. MIK is a public entity that is listed on Mongolian stock exchange ("MSE"). The Bank holds a total of 4,139,912 MIK shares as of 31 December 2020 (2019: 2,069,000 shares), the closing price of MIK shares at MSE at 31 December 2020 was MNT 14,950 per share (2019: MNT 15,000 per share).

As of the date of this report, MIK has not issued its audited financial statements for the year ended 31 December 2020. The Bank's interest in MIK is accounted for using the equity method based on MIK's most recent available financial information as at 31 December 2020, adjusted for any significant events as appropriate. MIK's audited financial statements may be different from the information used by the Bank and any difference will be adjusted for by the Bank in 2021.

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**17. Investment in associate (contd.)**

The following table illustrates the summarised financial information of the Bank's investment in MIK:

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
<b>At 1 January</b>	–	–
Reclassification from financial investments (Note 16)	26,876,310	–
Transfer from UBCB (Note 6)	27,670,448	–
Deemed gain on an associate resulted by the Merger (Note 10)	768,590	–
Fair value of net identifiable assets of an associate as at the date of the Merger	<b>55,315,348</b>	–
Share of loss of an associate for the period	(14,501,873)	–
<b>At 31 December</b>	<b>40,813,475</b>	–
<b>Investee: MIK</b>		
Total assets	4,069,222,998	4,181,247,978
Total liabilities	(3,918,897,123)	3,918,562,245
Equity	150,325,875	262,685,733
Bank's share of equity (27.15%)	<b>40,813,475</b>	–
Net interest income for the period from date of significant influence	41,301,546	
Comprehensive loss for the period from date of significant influence	(53,413,898)	

**18. 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.

	<b>At 31 December 2020</b>			<b>At 31 December 2019</b>		
	<b>Notional</b>	<b>Fair value</b>		<b>Notional</b>	<b>Fair value</b>	
	<b>amount</b>	<b>Assets</b>	<b>Liability</b>	<b>amount</b>	<b>Assets</b>	<b>Liability</b>
	<b>MNT'000</b>	<b>MNT'000</b>	<b>MNT'000</b>	<b>MNT'000</b>	<b>MNT'000</b>	<b>MNT'000</b>
<b>Derivatives held for trading</b>						
Cross-currency interest rate swaps with MIK and BoM (a)	777,151,290	89,371,192	93,331,037	777,151,290	77,925,340	76,226,529
Cross-currency interest rate swaps with BoM (b)	340,178,235	–	6,392,065	–	–	–
Forwards	–	–	–	78,162,784	1,930,305	–
	<u>1,117,329,525</u>	<u>89,371,192</u>	<u>99,723,102</u>	<u>855,314,074</u>	<u>79,855,645</u>	<u>76,226,529</u>
<b>Derivatives used for cash flow hedges</b>						
Currency swap (c)	–	–	–	971,940,000	415,006,111	–
	<u>1,117,329,525</u>	<u>89,371,192</u>	<u>99,723,102</u>	<u>1,827,254,074</u>	<u>494,861,756</u>	<u>76,226,529</u>

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 37. The effects of respective hedge accounting on financial position and performance disclosed in Note 10 and below.

**18. Derivative financial instruments (contd.)**

(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) During 2020, the Bank entered into a cross-currency interest rate swap agreements with BoM with total notional amount of MNT 340,178,235 thousand. At initiation, 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. At the end of the term of agreements, the parties shall exchange the principal payments at the exchange rate of the initial transaction.

(c) The currency swap agreements were designated as hedging instruments and were 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 and the Bank pays USD funds and receives MNT funds at the spot rate. The derivative financial instrument has matured on 29 Apr 2020, whereas the long-term debt securities issued and traded in international market designated as hedged item which had a notional amount of USD 500 million, was fully settled on 19 May 2020. The Bank has incurred net realised gain on maturity of the swap amounting to MNT 6,693,889 thousand, which was offset against the foreign exchange loss incurred on the debt securities.

**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

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 33)	Line item in the statement of financial position
At 31 December 2020	6,693,889	–	Debt securities issued
At 31 December 2019	6,054,050	–	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:

	Notional amount MNT'000	Fair value of assets MNT'000	Change in fair value of hedging instrument in the year used for ineffectiveness measurement				Reclassified from Cash flow hedge reserves to profit or loss (Note 33) MNT'000
			In total MNT'000	Effective portion recognised in OCI (Note 33) MNT'000	Hedge ineffectiveness recognised in the profit or loss (Note 10) MNT'000	Hedge ineffectiveness recognised in the profit or loss (Note 10) MNT'000	
<b>Currency swap</b>							
At 31 December 2020	–	–	6,693,889	6,693,889	–	(6,693,889)	
At 31 December 2019	971,940,000	415,006,111	35,742,865	6,054,050	29,688,815	(35,452,296)	

## TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

### Notes to the financial statements - 31 December 2020

#### 19. Loans and advances to customers

	2020 MNT'000	2019 MNT'000
Corporate	3,524,298,853	2,953,068,818
Retail loan	639,059,508	574,038,238
Small and Medium-sized enterprise ("SME")	409,368,088	373,363,628
Loans to executives, directors and staffs	39,539,225	33,885,312
<b>Gross loans and advances to customers</b>	<b>4,612,265,674</b>	<b>3,934,355,996</b>
Allowance for impairment losses	(503,547,304)	(431,204,350)
<b>Net loans and advances to customers</b>	<b>4,108,718,370</b>	<b>3,503,151,646</b>

#### Transferred financial assets that are derecognised in their entirety

##### *Sale of mortgage pools*

During the year (on 26 March and 8 July 2020) 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 16).

##### *One-time forgiveness of pension-loan debts*

The Parliament of Mongolia declared and approved to repay all outstanding pension loan with individual balances of up to MNT 6 million (one-time pension loan forgiveness). The loan portfolio is to be exchanged for unquoted bonds issued by Erdenes Mongol LLC, a state-owned entity. Accordingly, on 21 February 2020, the Bank entered into an agreement with Erdenes Mongol LLC and converted their outstanding pension loan portfolio into the bonds. The Bank derecognised loan portfolio amounting to MNT 2,446 billion during the year and recognised the bonds as financial assets which were then sold to BoM on 12 May 2020. Also bonds amounting to MNT 8,978 million were transferred from UBCB upon the Merger and has been sold to BoM on 3 September 2020.

#### Transferred financial assets that are not derecognised in their entirety

Furthermore, the Bank participated in monetisation transactions with MIK in 2020 for selling of loan pools collateralised by immovable assets with recourse. The Bank sold MNT 50,890 million (2019: MNT 426,310 million) of loans to MIK, for which the Bank received funding bearing interest rate of 16% (2019: 7.75%-16%) 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 558,249 million as at 31 December 2020 (2019: MNT 435,051 million) which is inclusive of the loan pools transferred from UBCB upon the Merger amounting to MNT 103,439 million (Note 32).

#### 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 31), which were purchased and fully paid by BoM, ultimately providing the financing for the specific borrowers. In addition the provisioning rates for the specific borrowers are specifically agreed with BoM.

#### Government implemented Covid-19 relief program

Throughout 2020, the Government of Mongolia had implemented Covid-19 relief program together with BoM, under which it was resolved to provide an interest payment holiday to project mortgage loan holders. Under the program, the mortgage loan borrowers were given interest free period of up to six to eight months, whereas the payments deferred in the period is to be paid later by extending the original maturity of the loan. The deferred payments after the end of the holiday are to be treated as additional payments at the end of the extended maturity of the loan. The loan balance outstanding as of 31 December 2020 amounted to MNT 122.5 billion and net modification loss from project financing of MNT 5,593 million (see Note 10) was recognised in relation to this amendment.

**19. Loans and advances to customers (contd.)**

**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:

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
At 1 January	431,204,350	434,611,084
Net charge for the year (Note 11)	43,917,310	41,897,020
Foreign exchange difference	325,308	470,670
Write-off during the year	(510,108)	(45,774,424)
Transfer from UBCB due to the Merger	28,610,444	–
At 31 December	<u><b>503,547,304</b></u>	<u><b>431,204,350</b></u>

The fair value of the collateral that the Bank holds relating to loans determined to be delinquent or individually impaired as at 31 December 2020 are presented in 'Collateral and other credit enhancement' under Note 37. 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 150.0 billion (2019: MNT 143.9 billion) and Kanetic Pte Ltd (“Kanetic”) amounting to MNT 162.4 billion (2019: MNT 159.3 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 2020, the Bank has provided allowance for impairment of MNT 52.5 billion (2019: MNT 50.4 billion) and MNT 56.8 billion (2019: MNT 55.8 billion) against the loans receivables from MCC and Kanetic, respectively.

**Temporary relief on credit classification and provisioning of borrowers**

The Government of Mongolia together with BoM have implemented a number of actions and programs in order to relieve the impact of the coronavirus (“Covid-19”) pandemic on the Mongolian economy and the borrowers. As for the loan classification and provisioning requirements of the Mongolian banking sector, BoM has issued three resolutions (A-69, A-438 and A-324) during 2020.

*Summary of the impact of the resolutions:*

- Quantitative classification of consumer loans have been temporarily updated as follows:
  - Up to 90 days past due consumer loans of individuals: “Performing”
  - 91-120 days past due consumer loans of individuals: “Special mention”
  - More than 121 days past due consumer loans of individuals: “Non-performing” (Substandard, Doubtful, Bad)
- To keep the qualitative classification of consumer loans over the effective period of these resolutions at their qualitative classification of 31 January 2020.
- The Bank has been taking deferral requests from the borrowers that faced financial difficulties with loan repayment due to the COVID-19 since 1 April 2020. In case of restructuring of loans, the restructured loans have not been considered as restructured.
- The Bank has not made any downgrading for the final classification of business loans since 31 January 2020 and have kept the final classification as of 31 January 2020 as the management considered that the loan restructuring process is allowed until 30 June 2021 according to Section 5 of A-438 resolution, and BoM has agreed to keep the final classification as of 31 January 2020 for those restructured loans.

However, additional provision was provided on certain loans for which the Bank considered their credit risk to be high.

Had the resolution not been issued, the provision for impairment would have been increased by MNT 17,847,824 thousand and allowance for impairment losses for loans and advances to customers would have been MNT 521,395,128 thousand as of 31 December 2020.

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**20. Other assets**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Prepaid expenses and advances	24,907,800	19,005,651
Settlement receivables	4,296,893	5,699,551
Deferred employee benefit	3,306,669	3,719,276
Consumables and other office supplies	2,417,272	1,726,150
Precious metals	60,827	307,837
Prepayment made for construction	44,518,426	25,440,087
Other receivables due from third parties	39,246,468	5,888,742
Less: Allowance for other receivables due from third parties	<u>(17,441,048)</u>	<u>(270,511)</u>
	<b><u>101,313,307</u></b>	<b><u>61,516,783</u></b>
Foreclosed properties	38,511,494	69,676,287
Less: Allowance for repossessed collaterals	<u>(27,165,495)</u>	<u>(27,404,986)</u>
	<b><u>11,345,999</u></b>	<b><u>42,271,301</u></b>
<b>Total other assets</b>	<b><u>112,659,306</u></b>	<b><u>103,788,084</u></b>

Included in prepaid expenses and advances are guarantee deposits held for international card payment organisations amounting to MNT 10,557 million (2019: MNT 10,128 million).

Deferred employee benefit represents outstanding fair value adjustments of the loans granted 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 51% (2019: 48%) of the total contract fee has been prepaid according to the construction agreement, from which 81% (2019: 88%) of the prepayment has been recorded as construction-in-progress (see Note 23) 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:

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
<b>Impairment allowance on other receivables</b>		
At 1 January	270,511	724,883
Charge for the year	14,702,354	186,179
Reversal	<u>(189,862)</u>	<u>(67,399)</u>
Net charge for the year (Note 11)	14,512,492	118,780
Transfer from UBCB due to the Merger	2,657,881	–
Write-off during the year	–	(571,419)
Foreign exchange difference	164	(1,733)
<b>At 31 December</b>	<b><u>17,441,048</u></b>	<b><u>270,511</u></b>
	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
<b>Impairment allowance on foreclosed properties</b>		
At 1 January	27,404,986	10,361,264
Charge for the year	18,788,541	19,854,188
Reversal	<u>(11,450,848)</u>	<u>(3,254,647)</u>
Net charge for the year (Note 11)	7,337,693	16,599,541
Transfer (Note 22)	–	444,181
Write-off during the year	(11,246,598)	–
Transfer from UBCB due to the Merger	3,669,414	–
<b>At 31 December</b>	<b><u>27,165,495</u></b>	<b><u>27,404,986</u></b>



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**21. Investment property**

	<b>2020</b> <b>MNT'000</b>	<b>2019</b> <b>MNT'000</b>
At 1 January	80,897,528	80,114,526
Transfer	42,338,393	–
Transfer from UBCB due to the Merger	5,631,893	–
Change in fair value (Note 10)	20,122,404	783,002
<b>At 31 December</b>	<b><u>148,990,218</u></b>	<b><u>80,897,528</u></b>

The Bank's investment property consists of office spaces. As at 31 December 2020 and 2019, 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 38.

**22. Assets held for sale**

	<b>2020</b> <b>MNT'000</b>	<b>2019</b> <b>MNT'000</b>
Buildings and real estate	<u>4,138,693</u>	–

The Management assessed that those buildings and real estates are available for immediate sale and can be sold to the buyer in its current condition. The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification. A potential buyer has been identified and negotiations as at reporting date are at an advanced stage.

**23. Property and equipment**

	<b>Buildings and land</b> <b>MNT'000</b>	<b>Office equipment and vehicles</b> <b>MNT'000</b>	<b>Computers and others</b> <b>MNT'000</b>	<b>Construction-in-progress</b> <b>MNT'000</b>	<b>Total</b> <b>MNT'000</b>
<b>At 31 December 2020</b>					
<b>At cost/valuation</b>					
At 1 January 2020	175,156,275	14,895,699	39,477,689	195,108,901	424,638,564
Additions	3,125,000	10,755	1,708,753	75,200	4,919,708
Disposals	(3,125,000)	(839,434)	(43,601)	–	(4,008,035)
Write-offs (Note 12)	–	(30,060)	(175,053)	–	(205,113)
Reclassification	–	451,328	(451,328)	–	–
Transfer from UBCB	78,876,806	1,565,034	3,708,152	–	84,149,992
At 31 December 2020	<u>254,033,081</u>	<u>16,053,322</u>	<u>44,224,612</u>	<u>195,184,101</u>	<u>509,495,116</u>
<b>Accumulated depreciation</b>					
At 1 January 2020	4,833,079	6,311,621	21,182,643	–	32,327,343
Charge for the year (Note 12)	4,838,078	1,464,026	6,675,868	–	12,977,972
Disposals	(7,593)	(385,554)	(13,725)	–	(406,872)
Write-offs (Note 12)	–	(19,824)	(151,170)	–	(170,994)
Transfer from UBCB	3,673,798	865,210	1,584,648	–	6,123,656
At 31 December 2020	<u>13,337,362</u>	<u>8,235,479</u>	<u>29,278,264</u>	<u>–</u>	<u>50,851,105</u>
<b>Net carrying amount</b>	<b><u>240,695,719</u></b>	<b><u>7,817,843</u></b>	<b><u>14,946,348</u></b>	<b><u>195,184,101</u></b>	<b><u>458,644,011</u></b>

**23. Property and equipment (contd.)**

	<b>Buildings and land MNT'000</b>	<b>Office equipment and vehicles MNT'000</b>	<b>Computers and others MNT'000</b>	<b>Construction- in-progress MNT'000</b>	<b>Total MNT'000</b>
<b>At 31 December 2019</b>					
<b>At cost/valuation</b>					
At 1 January 2019	172,858,275	20,394,732	29,367,629	172,529,071	395,149,707
Additions	2,298,000	2,182,946	11,521,121	22,579,830	38,581,897
Write-offs	–	(7,739,667)	(1,016,194)	–	(8,755,861)
Transfers	–	57,688	(394,867)	–	(337,179)
At 31 December 2019	<u>175,156,275</u>	<u>14,895,699</u>	<u>39,477,689</u>	<u>195,108,901</u>	<u>424,638,564</u>
<b>Accumulated depreciation</b>					
At 1 January 2019	1,475,901	5,069,075	16,544,714	–	23,089,690
Charge for the year (Note 12)	3,357,178	1,304,461	5,653,777	–	10,315,416
Write-off	–	(61,915)	(1,015,848)	–	(1,077,763)
At 31 December 2019	<u>4,833,079</u>	<u>6,311,621</u>	<u>21,182,643</u>	<u>–</u>	<u>32,327,343</u>
<b>Net carrying amount</b>	<b><u>170,323,196</u></b>	<b><u>8,584,078</u></b>	<b><u>18,295,046</u></b>	<b><u>195,108,901</u></b>	<b><u>392,311,221</u></b>

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 20). The building is expected to be completed in 2022.

Buildings are carried at fair value. Had these buildings been recognised under the cost model as at 31 December 2020, the carrying amount of land and buildings would have been MNT 114,610 million (2019: MNT 77,417 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 38.

**24. 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.

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**Notes to the financial statements - 31 December 2020**

**24. Right-of-use assets and Lease liabilities (contd.)**

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

	<b>Right-of-use assets MNT'000</b>	<b>Lease liabilities MNT'000</b>
As at 1 January 2019	15,605,301	(15,605,301)
Additions	1,043,140	(1,043,140)
Depreciation charge for the year (Note 12)	(3,930,742)	–
Accretion of interest (Note 9)	–	(2,135,697)
Lease payments	–	5,192,740
<b>As at 31 December 2019 and 1 January 2020</b>	<b>12,717,699</b>	<b>(13,591,398)</b>
Additions	1,682,331	(1,682,331)
Transfer from UBCB	1,085,892	(970,544)
Termination of lease	(487,733)	541,925
Depreciation charge for the year (Note 12)	(4,865,339)	–
Accretion of interest (Note 9)	–	(1,821,379)
Lease payments	–	6,139,205
<b>As at 31 December 2020</b>	<b>10,132,850</b>	<b>(11,384,522)</b>

The maturity analysis of lease liabilities are disclosed in Note 40.

The Bank recognised rent expense from short-term leases of MNT 408,258 thousand for the year ended 31 December 2020 (2019: MNT 796,128 thousand). Also included within Utility expenses of Operating expenses are variable lease payments that do not depend on an index or rate of MNT 363,139 thousand for the year ended 31 December 2020 (2019: MNT 321,571 thousand).

**25. Intangible assets**

	<b>2020 MNT'000</b>	<b>2019 MNT'000</b>
<b>At cost</b>		
At 1 January	17,061,275	11,865,156
Additions	381,917	4,858,940
Transfers	–	337,179
Transfer from UBCB	1,947,423	–
Write-offs (Note 12)	(2,894,948)	–
At 31 December	16,495,667	17,061,275
<b>Accumulated amortisation</b>		
At 1 January	11,190,658	9,088,747
Charge for the year (Note 12)	2,421,188	2,101,911
Transfer from UBCB	1,058,279	–
Write-offs (Note 12)	(2,548,872)	–
At 31 December	12,121,253	11,190,658
<b>Net carrying amount</b>	<b>4,374,414</b>	<b>5,870,617</b>

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**Notes to the financial statements - 31 December 2020**

**26. Due to banks and other financial institutions**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Current accounts from banks and financial institutions	15,623,929	23,482,750
Time deposits from banks and financial institutions	87,322,215	165,901,028
	<b><u>102,946,144</u></b>	<b><u>189,383,778</u></b>

At 31 December 2020 time deposits included deposit from local banks denominated in MNT with interest rate of 10.80% per annum and original maturity from 16 to 25 months (2019: time deposits denominated in USD and MNT with interest rates ranging between 5.0% to 6.0% per annum on USD and interest rate of 10.0% per annum on MNT and original maturity 3 to 12 months).

**27. Repurchase agreements**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Reverse repurchase agreement with BoM	129,140,869	–
Troubled Asset Relief Program	65,013,356	65,013,356
Asset backed securities Program	30,133,391	–
	<b><u>224,287,616</u></b>	<b><u>65,013,356</u></b>

On 31 December 2020, the Bank entered into short-term repurchase agreements with BoM, whereas the Bank sold unquoted BoM bills amounting MNT 130 billion. The agreement bear annual interest of 7.0% and shall mature on 4 January 2021.

Furthermore, in December 2020, the Bank entered into long-term reverse repurchase agreement with BoM, whereas the Bank sold unquoted BoM bills amounting to MNT 30,290,000 thousand. The agreements were conducted under an asset backed security program being implemented, upon which the Bank shall disburse the financing to eligible borrowers and shall sell these loans to Central Depository in return for Asset backed bonds. The agreement bears annual interests of 6.5% and shall mature in November 2022.

In 2016, the Bank entered into repurchase agreement with BoM, whereas the Bank sold DBM bonds (Note 16) 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.

**28. Due to customers**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
<b>Government deposits</b>		
- Current accounts	98,868,115	277,288,218
- Time deposits	190,123,522	107,613,567
- Demand deposits	101,586,079	–
- Guarantee fund	10,779,093	10,687,997
<b>Private sector deposits</b>		
- Current accounts	901,330,229	764,207,019
- Time deposits	601,095,942	503,991,177
- Guarantee and LC fund	58,331,514	59,124,327
- Other	112,866	507,890
- Demand deposits	172,252,719	894
<b>Individual deposits</b>		
- Time deposits	2,392,848,222	1,559,123,843
- Demand deposits	471,415,909	283,447,438
- Current accounts	308,651,933	254,628,922
- Other	4,022,040	812,842
	<b><u>5,311,418,183</u></b>	<b><u>3,821,434,134</u></b>

**29. Borrowed funds**

	2020 MNT'000	2019 MNT'000
<b>Borrowed funds from foreign banks and financial institutions</b>		
Commerzbank AG	153,283,109	10,426,411
Transkapitalbank	42,860,755	27,439,394
VTB Bank Russia	39,138,422	155,554,252
Asian Development Bank	30,657,129	24,397,994
Japan International Cooperation Agency	19,747,864	20,671,649
Atlantic Forfaitierungs AG	16,244,833	9,312,103
International Bank of Economic Cooperation	12,741,515	3,124,045
UBI Banca	8,705,169	10,017,762
Credit Bank of Moscow	7,168,132	–
Erste Group Bank	6,848,035	16,462,860
Industrial and Commercial Bank of China	5,381,672	7,555,807
Kreditanstalt fuer Wiederaufbau	5,102,212	3,282,210
Oddo BHF AG	2,979,648	–
China Trade Solutions	2,075,364	1,650,580
International Development Association	1,109,650	1,130,275
Export-Import Bank of Republic of China	838,379	1,352,495
Bank of Inner Mongolia	289,080	60,866,396
Crowdcredit Estonia OU	275,721	2,481,013
World Bank	243,602	288,795
Deutsche Bank AG	–	56,769,907
China Development Bank	–	56,459,336
Huishang Bank	–	48,034,171
Japan Bank of International Cooperation	–	7,347,512
Banca Popolare di Sondrio	–	5,618,841
Sumitomo Mitsui Banking Corporation	–	3,346,223
Baoshang Bank	–	1,122,392
ING Bank	–	566,792
<b>Borrowed funds from government organizations</b>		
Mortgage Financing Programme by BoM and the Ministry of Finance	93,938,943	99,000,370
Development Bank of Mongolia	74,583,772	124,798,312
"Gold-2" programme financing by BoM	33,760,274	–
Ministry of Finance	760,556	–
Education loan fund	2,518	–
SME Development Fund	–	212,810
	<b>558,736,354</b>	<b>759,290,707</b>

Borrowings are all unsecured except for the funds obtained from DBM under the Wool project and Commerzbank AG with outstanding balances of MNT 1,678 million (2019: MNT 1,979 million) and USD 50 million (2019: nil) respectively. The DBM funds are secured by unquoted BoM treasury bills with face value of MNT 1.8 billion (Note 16). The funds obtained from Commerzbank AG is secured by a cash deposit amounting to MNT 142.5 billion included within the placement with foreign bank as cash collateral (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.

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**30. Sub-ordinated debts**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
United Banking Corporation LLC	–	150,046,057

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

**31. Debt securities issued**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Debt securities issued in foreign market	–	1,376,348,436
Debt securities issued in domestic market	160,140,274	160,140,274
	<b>160,140,274</b>	<b>1,536,488,710</b>

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 bore 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 billion debt securities to BoM on 28 June 2016 (See Note 19). The debt securities shall mature on 28 June 2021 and bears annual interest rate of 8.0% payable semi-annually.

**32. Other liabilities**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Liabilities for loans sold to MIK with recourse (Note 19)	558,248,580	435,050,735
Delay on clearing settlement	53,666,531	55,741,656
Payables to third parties	7,246,376	9,233,977
Deferred revenue and income	3,732,611	4,383,314
Computer lease payable	1,034,874	1,496,274
Provision on off-balance sheet commitments (Note 36)	708,343	1,360,520
Taxes payable other than income tax	2,680,345	395,693
Others	1,085,586	858,332
	<b>628,403,246</b>	<b>508,520,501</b>

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.

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**33. Share capital, Share premium and Other reserves**

**Share capital and share premium**

	Number of ordinary shares		Share capital		Share premium	
	2020	2019	2020 MNT'000	2019 MNT'000	2020 MNT'000	2019 MNT'000
At 1 January	3,305,102	3,649,150	50,000,707	55,205,582	19,298,006	210,393,158
Issued during the year	1,501,980	–	22,722,464	–	231,788,748	–
Reversed during the year	–	(344,048)	–	(5,204,875)	–	(191,095,152)
<b>At 31 December</b>	<b>4,807,082</b>	<b>3,305,102</b>	<b>72,723,171</b>	<b>50,000,707</b>	<b>251,086,754</b>	<b>19,298,006</b>

The Bank has 5,000,000 shares authorized for issue (2019: 4,000,000 shares) from which total of 4,807,082 shares were issued and outstanding as of 31 December 2020 (2019: 3,305,102 shares). All issued shares were fully paid and have a par value of MNT 15,128.

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

As a result of the Merger, the Bank has issued 659,282 additional shares at par value of MNT 15,128 per share. The Merger and the respective increase in capital were approved by BoM on 23 June 2020. The difference between net assets of UBCB (excluding the revaluation reserve) and the amount of shares issued has been recognised as share premium.

Further, on 22 December 2020, the Bank has issued additional 842,698 number of shares at MNT 178,000 per share at total cash consideration of MNT 150,000 million to an existing shareholder which was approved by BoM, thus increasing its issued capital.

The shareholders of the Bank as of 31 December 2020 and 2019 and percentage of ownership are as follows:

	2020	2019
The Globull Investment and Development SCA	45.26%	65.83%
United Banking Corporation LLC	31.25%	19.95%
Mr. Erdenebileg Doljin	13.71%	–
US Global Investment LLC	5.03%	7.32%
GS Mongolia Investment Limited (Goldman Sachs)	3.28%	4.78%
Other individual and shareholders	1.47%	2.12%
	<b>100.00%</b>	<b>100.00%</b>

**Other reserves**

	Asset revaluation reserve MNT'000	Available-for-sale investment revaluation reserve MNT'000	Cash flow hedge reserve MNT'000	Total MNT'000
<b>At 1 January 2020</b>	129,231,895	22,244,890	–	151,476,785
Net change in fair value	–	889,293	6,693,889	7,583,182
Changes due to disposal and write-offs	(17,689)	–	–	(17,689)
Transfer from UBCB	39,744,614	–	–	39,744,614
Recycling of reserves due to recognition of an associate resulted by the Merger	–	3,277,296	–	3,277,296
Revaluation on hedging instrument reclassified to profit or loss against hedged item	–	–	(6,693,889)	(6,693,889)
Tax effect of the net change in fair value (Note 13.3)	–	(2,313,418)	–	(2,313,418)
<b>At 31 December 2020</b>	<b>168,958,820</b>	<b>24,098,061</b>	<b>–</b>	<b>193,056,881</b>
<b>At 1 January 2019</b>	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
<b>At 31 December 2019</b>	<b>129,231,895</b>	<b>22,244,890</b>	<b>–</b>	<b>151,476,785</b>

### 34. 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 individual's mortgage, consumers loans and deposits and other transactions and digital banking with retail customers. The Bank classifies its salary and fixed income customers as retail. Retail segment consists sub segments, depending on their income, deposits and asset level: Premier, VIP, Comfort and classic.

*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.

As the Bank's operations are located in Mongolia, no further geographical segment information is provided. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2020 or 2019.



TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2020

34. Segment reporting (contd.)

At 31 December 2020	Corporate Banking MNT'000	SME Banking MNT'000	Retail Banking MNT'000	International Banking MNT'000	Treasury MNT'000	Other MNT'000	Total MNT'000
<b>Segment results</b>							
External revenue							
Net interest income/(expense)	139,374,202	50,481,235	(94,747,808)	(37,190,622)	144,555,494	(747,389)	201,725,112
Fee and commission income	4,636,806	3,259,698	13,195,270	30,031,851	409,666	2,539,676	54,072,967
Fee and commission expenses	(3,561)	–	(11,666,633)	(463)	(131,248)	(2,906,906)	(14,708,811)
Other operating income/(expense), net	3,447,161	–	(5,657,950)	–	(20,762,595)	17,300,937	(5,672,447)
Intersegment revenue/(expense)	(116,839,576)	5,229,836	177,072,921	13,851,987	(171,312,362)	91,997,194	–
Total segment revenue/(expense)	30,615,032	58,970,769	78,195,800	6,692,753	(47,241,045)	108,183,512	235,416,821
Operating expense	6,905,689	220,917	405,804	2,912,624	2,869,522	118,287,639	131,602,195
Share of loss of an associate	–	–	–	–	14,501,873	–	14,501,873
Credit loss expense on financial assets	23,157,266	6,423,339	21,930,756	–	2,515,394	10,648,562	64,675,317
Profit/(loss) before tax	552,077	52,326,513	55,859,240	3,780,129	(67,127,834)	(20,752,689)	24,637,436
Income tax expense	–	–	–	–	(1,921,609)	5,582,018	3,660,409
Net profit/(loss) for the year	<b>552,077</b>	<b>52,326,513</b>	<b>55,859,240</b>	<b>3,780,129</b>	<b>(65,206,225)</b>	<b>(26,334,707)</b>	<b>20,977,027</b>
<b>Segment assets</b>	<b>3,194,436,232</b>	<b>303,501,642</b>	<b>670,269,700</b>	<b>31,289</b>	<b>3,167,711,051</b>	<b>780,868,116</b>	<b>8,116,818,030</b>
<b>Segment liabilities</b>	<b>2,202,554,586</b>	<b>857,174,662</b>	<b>3,108,776,374</b>	<b>360,746,159</b>	<b>548,820,303</b>	<b>21,234,823</b>	<b>7,099,306,907</b>
Depreciation and amortisation	187,927	1,278	4,879,336	16,288	155,581	15,024,089	20,264,499
Capital expenditure*	1,453,202	6,301	25	3,543	–	3,838,554	5,301,625

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

Notes to the financial statements - 31 December 2020

**34. Segment reporting (contd.)**

At 31 December 2019	Corporate Banking MNT'000	SME Banking MNT'000	Retail Banking MNT'000	International Banking MNT'000	Treasury MNT'000	Other MNT'000	Total MNT'000
<b>Segment results</b>							
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
Fee and commission income	7,280,430	(384,082)	47,533,110	368,558	707,270	(63,087)	55,442,199
Fee and commission expenses	(517)	–	(14,900,509)	–	(119,905)	(48,638)	(15,069,569)
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)	<u>61,981,991</u>	<u>53,444,177</u>	<u>111,240,789</u>	<u>8,075,591</u>	<u>17,397,069</u>	<u>210,695</u>	<u>252,350,312</u>
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	<u>21,903,357</u>	<u>49,153,592</u>	<u>44,142,049</u>	<u>2,777,074</u>	<u>14,062,626</u>	<u>(67,663,787)</u>	<u>64,374,911</u>
Income tax expense	–	–	–	–	–	206	206
Net profit/(loss) for the year	<u><b>21,903,357</b></u>	<u><b>49,153,592</b></u>	<u><b>44,142,049</b></u>	<u><b>2,777,074</b></u>	<u><b>14,062,626</b></u>	<u><b>(67,663,993)</b></u>	<u><b>64,374,705</b></u>
<b>Segment assets</b>	<b>2,678,840,188</b>	<b>350,794,030</b>	<b>674,196,579</b>	<b>–</b>	<b>3,569,685,356</b>	<b>550,181,412</b>	<b>7,823,697,565</b>
<b>Segment liabilities</b>	<b>29,409,430</b>	<b>560,583</b>	<b>3,485,242,435</b>	<b>1,914,125,500</b>	<b>1,673,281,520</b>	<b>17,375,702</b>	<b>7,119,995,170</b>
Depreciation and amortisation	31,257	–	5,952,756	13,335	12,591	10,338,130	16,348,069
Capital expenditure*	52,524	–	11,624,813	25,177	9,183	31,729,140	43,440,837

\*Represents total additions to property and equipment and intangible assets.

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**35. Additional cash flow information**

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Cash and balances with BoM (Note 14)	856,968,353	1,096,100,972
Due from banks and financial institutions (Note 15)	570,008,607	301,381,272
Unquoted BoM treasury bills - less than three months (Note 16)	688,492,320	598,900,912
<b>Gross carrying cash and cash equivalents amount</b>	<b>2,115,469,280</b>	<b>1,996,383,156</b>
Less: Minimum reserve with the BoM not available to finance the Bank's day to day operations	(593,534,740)	(465,197,209)
Less: Placement with foreign bank as cash collateral	(143,779,003)	(15,250,230)
Less: Placement with domestic bank as cash guarantee in syndicated risk participation	-	(87,601,514)
Less: Unquoted BoM treasury bills - less than three months held as collateral	(1,782,246)	(1,988,613)
<b>Net cash and cash equivalents</b>	<b>1,376,373,291</b>	<b>1,426,345,590</b>

**36. 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 37).

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
Uncovered Guarantees and Letters of credit	289,565,616	350,275,914
Undrawn credit lines	275,547,390	179,013,676
	<b>565,113,006</b>	<b>529,289,590</b>

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

	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
At 1 January	1,360,520	2,055,572
Charge for the year	599,175	1,182,040
Reversal for the year	(1,251,352)	(1,877,092)
Net reversal (Note 11)	(652,177)	(695,052)
<b>At 31 December</b>	<b>708,343</b>	<b>1,360,520</b>

As of 31 December 2020, the Bank had capital commitments for construction in progress of USD 99 million (2019: USD 106 million) (Note 20 and 23).

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 including related share premium as at 31 December 2020 amounted to MNT 323.8 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.

### **36. 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.

#### **Dispute with Tax authority**

In 2020, a tax inspection on the Bank's tax filings was conducted by the Mongolian Tax Authority ("MTA") covering the period from 1 January 2016 to 31 December 2018. As a result of the inspection, a number of initial findings were identified and the difference is mainly related to different assessment of deductibility of certain expenses between the Bank and MTA. The MTA issued a demand notice dated 3 February 2020 for MNT 6,898,140 thousand for tax unpaid and penalty, of which MNT 4,480,130 thousand was paid and the remaining MNT 2,418,010 thousand was disagreed by the Bank as this amount is excessive based on the maximum penalty under the statute. The Bank has assessed the findings and submitted a rejection letter to the Tax Dispute Settlement Council of Mongolia ("TDSC") on 3 March 2020 with the basis for disagreement. However, TDSC has ruled dismissal on the Bank's claim. The Bank has further submitted a compliant to the Primary Court for Administrative Cases on 10 February 2021 after the official dismissal letter received from TDSC. Management assessed that the probability of outflow is considered to be remote and reliable estimate cannot be made.

At 31 December 2020 and 2019, there were no major litigation cases involving the Bank other than above.

#### **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.

### **37. 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.

### **37. Risk management (contd.)**

#### **(1) Introduction (contd.)**

##### **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.

##### **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.

### **37. Risk management (contd.)**

#### **(1) Introduction (contd.)**

##### **Risk measurement and reporting system (contd.)**

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.

##### **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.

**37. 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.

	2020 MNT'000	2019 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	570,008,607	301,819,280
Financial investments (excluding equity investments and repossessed assets)	1,677,576,345	1,775,327,393
Derivative financial instruments	89,371,192	494,861,756
Loans and advances to customers	4,612,265,674	3,934,355,996
Other financial assets	54,100,796	21,715,985
	<u>7,003,322,614</u>	<u>6,980,997,312</u>
Uncovered Guarantees and Letters of credit	289,565,616	350,275,914
Undrawn credit lines	275,547,390	179,013,676
	<u>565,113,006</u>	<u>529,289,590</u>
<b>Total exposure to credit risk</b>	<u><b>7,568,435,620</b></u>	<u><b>7,510,286,902</b></u>

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 19) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

	Gross maximum exposure			
	2020 MNT'000	%	2019 MNT'000	%
Trading	962,746,676	20.87%	887,182,636	22.55%
Mining and quarrying	799,360,866	17.33%	583,301,116	14.83%
Construction	524,185,807	11.37%	497,090,897	12.63%
Financial services*	345,712,883	7.50%	374,814,148	9.53%
Manufacturing	461,682,664	10.01%	353,795,538	8.99%
Mortgage	350,099,986	7.59%	272,320,795	6.92%
Payment card	226,380,742	4.91%	212,807,471	5.41%
Petrol import and trade	117,908,067	2.56%	148,581,652	3.78%
Hotel, restaurant and tourism	165,981,324	3.60%	113,409,481	2.88%
Transportation and communication	83,803,673	1.82%	72,825,008	1.85%
Savings collateralised	58,371,337	1.27%	63,471,973	1.61%
Health	39,975,288	0.87%	33,724,233	0.86%
Education	72,553,155	1.57%	26,242,865	0.67%
Electricity and thermal energy	24,946,194	0.54%	22,188,970	0.56%
Agriculture	25,445,356	0.55%	21,606,289	0.55%
Other	353,111,656	7.66%	250,992,924	6.38%
	<u><b>4,612,265,674</b></u>	<u><b>100.00%</b></u>	<u><b>3,934,355,996</b></u>	<u><b>100.00%</b></u>

\*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.

**37. 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;
- retail lending: charges over automobiles and assignment of income; charges over real estate properties; and mortgages over residential properties;
- small and medium-sized enterprise lending: charges over real estate 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:

	2020			2019		
	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	1,096,565,227	947,822,463	881,283,776	716,815,475	583,922,496	555,815,787
Substandard	193,117,566	135,504,099	130,332,661	83,886,838	64,488,389	62,501,138
Doubtful	191,081,361	108,900,020	108,100,952	291,571,638	163,973,135	163,848,300
Loss	232,070,583	39,112,805	39,002,187	144,620,533	21,620,084	21,619,953
	<b>1,712,834,737</b>	<b>1,231,339,387</b>	<b>1,158,719,576</b>	<b>1,236,894,484</b>	<b>834,004,104</b>	<b>803,785,178</b>

**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.



**37. 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 (excluding cash on hand and current accounts with BoM) MNT'000	Due from other banks and financial institutions MNT'000	Financial investments (excluding equity investments and repossessed assets) MNT'000	Derivative financial instruments MNT'000	Loans and advances to customers* MNT'000	Other financial assets MNT'000
<b>At 31 December 2020</b>						
Performing	–	570,008,607	1,677,576,345	89,371,192	2,899,430,937	23,558,869
Special mention	–	–	–	–	1,096,565,227	13,938
Non-performing:						
Substandard	–	–	–	–	193,117,566	375,029
Doubtful	–	–	–	–	191,081,361	26,943,132
Loss	–	–	–	–	232,070,583	3,209,828
Gross amount	–	570,008,607	1,677,576,345	89,371,192	4,612,265,674	54,100,796
Allowance for impairment	–	–	–	–	(503,547,304)	(17,441,048)
Net carrying amount	–	<b>570,008,607</b>	<b>1,677,576,345</b>	<b>89,371,192</b>	<b>4,108,718,370</b>	<b>36,659,748</b>
<b>At 31 December 2019</b>						
Performing	452,916,902	301,819,280	1,775,327,393	494,861,756	2,697,461,512	21,503,902
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	452,916,902	301,819,280	1,775,327,393	494,861,756	3,934,355,996	21,715,985
Allowance for impairment	–	(438,008)	–	–	(431,204,350)	(270,511)
Net carrying amount	<b>452,916,902</b>	<b>301,381,272</b>	<b>1,775,327,393</b>	<b>494,861,756</b>	<b>3,503,151,646</b>	<b>21,445,474</b>

\*Please refer to Note 19 for details of the Temporary relief on credit classification and provisioning of borrowers as a result of Covid-19 during the year ended 31 December 2020.

**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.

**37. 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 2020 and 2019.

**(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 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:

	<b>2020</b>	<b>2019</b>
At 31 December	39.3%	32.1%

**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 2020 and 31 December 2019 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.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2020

37. Risk management (contd.)

(3) Liquidity risk (contd.)

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

At 31 December 2020	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
<b>Financial assets</b>							
Cash and balances with Bank of Mongolia	856,968,353	3,204,305	–	–	–	–	860,172,658
Due from other banks and financial institutions	568,506,799	3,795,827	–	–	–	–	572,302,626
Financial investments	28,832,561	757,499,229	85,270,106	183,280,123	779,307,028	341,867,411	2,176,056,458
Gross settled swaps:							
- Inflows	–	26,002,783	–	20,224,183	861,514,313	–	907,741,279
- Outflows	–	(25,322,315)	–	(23,506,165)	(800,274,202)	–	(849,102,682)
Loans and advances to customers	189,186,083	512,212,056	626,875,132	1,137,420,171	2,218,845,721	915,070,615	5,599,609,778
Other financial assets	49,803,903	4,296,893	–	–	–	–	54,100,796
	<u>1,693,297,699</u>	<u>1,281,688,778</u>	<u>712,145,238</u>	<u>1,317,418,312</u>	<u>3,059,392,860</u>	<u>1,256,938,026</u>	<u>9,320,880,913</u>
<b>Financial liabilities</b>							
Due to banks and other financial institutions	40,848,599	–	–	–	98,902,531	–	139,751,130
Repurchase agreements	–	129,239,828	–	69,300,685	33,867,753	–	232,408,266
Due to customers	1,840,064,284	952,551,409	955,538,695	1,171,256,025	489,928,661	27,878,713	5,437,217,787
Gross settled swaps:							
- Inflows	–	(33,571,554)	(410,650)	(26,996,990)	(1,153,123,954)	–	(1,214,103,148)
- Outflows	–	39,470,070	1,833,386	31,035,997	1,238,423,143	–	1,310,762,596
Borrowed funds	760,631	137,349,576	29,844,204	116,967,635	294,358,845	12,624,252	591,905,143
Debt securities issued	–	–	166,382,466	–	–	–	166,382,466
Lease liabilities	–	1,695,184	1,695,184	3,390,368	7,083,510	–	13,864,246
Other financial liabilities	–	63,033,367	–	–	641,477,303	4,270,389	708,781,059
Uncovered Guarantees and Letters of credit	289,565,616	–	–	–	–	–	289,565,616
Undrawn credit lines	275,547,390	–	–	–	–	–	275,547,390
	<u>2,446,786,520</u>	<u>1,289,767,880</u>	<u>1,154,883,285</u>	<u>1,364,953,720</u>	<u>1,650,917,792</u>	<u>44,773,354</u>	<u>7,952,082,551</u>
	<u>(753,488,821)</u>	<u>(8,079,102)</u>	<u>(442,738,047)</u>	<u>(47,535,408)</u>	<u>1,408,475,068</u>	<u>1,212,164,672</u>	<u>1,368,798,362</u>

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2020

37. 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
<b>Financial assets</b>							
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
Gross settled swaps and forwards:							
- Inflows	–	14,103,085	1,366,760,000	28,387,555	887,166,210	–	2,296,416,850
- Outflows	–	(21,078,898)	(971,940,000)	(43,094,636)	(905,029,938)	–	(1,941,143,472)
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	16,016,434	5,699,551	–	–	–	–	21,715,985
	<u>850,042,778</u>	<u>1,680,587,726</u>	<u>980,611,171</u>	<u>1,024,351,680</u>	<u>3,008,273,966</u>	<u>1,093,649,516</u>	<u>8,637,516,837</u>
<b>Financial liabilities</b>							
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
Gross settled swaps:							
- Inflows	–	(21,270,524)	–	(43,486,405)	(906,192,471)	–	(970,949,400)
- Outflows	–	13,237,490	–	27,322,844	887,166,210	–	927,726,544
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
	<u>1,859,941,655</u>	<u>1,413,731,402</u>	<u>2,193,812,222</u>	<u>1,097,058,112</u>	<u>1,244,173,921</u>	<u>216,016,676</u>	<u>8,024,733,988</u>
	<u>(1,009,898,877)</u>	<u>266,856,324</u>	<u>(1,213,201,051)</u>	<u>(72,706,432)</u>	<u>1,764,100,045</u>	<u>877,632,840</u>	<u>612,782,849</u>

**37. Risk management (contd.)**

**(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.

**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
<b>At 31 December 2020</b>					
<b>Currency</b>					
USD	+/- 100	-/+ 228,389	+/- 247,336,273	-/+ 205,550	+/- 247,336,273
MNT	+/- 100	-/+ 7,821,147	+/- 247,336,273	-/+ 7,039,032	+/- 247,336,273
OTHER	+/- 100	+/- 68,403	+/- 247,336,273	+/- 61,563	+/- 247,336,273
<b>At 31 December 2019</b>					
<b>Currency</b>					
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

**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.

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**37. 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:

	<b>Historical Simulation</b>	
	<b>2020</b>	<b>2019</b>
	<b>MNT'000</b>	<b>MNT'000</b>
31 December	(87,633)	(430,278)
Average Daily	(1,083,260)	(552,576)
Highest	(1,958,827)	(1,154,107)
Lowest	(87,633)	(66,975)

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

	<b>2020</b>		<b>2019</b>			
	<b>MNT denominated MNT'000</b>	<b>Foreign currencies MNT'000</b>	<b>Total MNT'000</b>	<b>MNT denominated MNT'000</b>	<b>Foreign currencies MNT'000</b>	<b>Total MNT'000</b>
<b>Financial assets</b>						
Cash and balances with Bank of Mongolia	391,888,595	465,079,758	856,968,353	295,390,646	800,710,326	1,096,100,972
Due from other banks and financial institutions	1,501,808	568,506,799	570,008,607	78,259,688	223,121,584	301,381,272
Financial investments	1,686,413,734	25,584,807	1,711,998,541	1,803,354,425	29,262,345	1,832,616,770
Derivative financial instruments	89,371,192	-	89,371,192	494,861,756	-	494,861,756
Loans and advances to customers	3,016,149,407	1,092,568,963	4,108,718,370	2,393,888,096	1,109,263,550	3,503,151,646
Other financial assets	23,314,701	13,345,047	36,659,748	9,407,545	12,037,929	21,445,474
	<u>5,208,639,437</u>	<u>2,165,085,374</u>	<u>7,373,724,811</u>	<u>5,075,162,156</u>	<u>2,174,395,734</u>	<u>7,249,557,890</u>
<b>Financial liabilities</b>						
Due to banks and other financial institutions	88,867,977	14,078,167	102,946,144	26,804,040	162,579,738	189,383,778
Repurchase agreements	224,287,616	-	224,287,616	65,013,356	-	65,013,356
Due to customers	3,039,576,543	2,271,841,640	5,311,418,183	2,226,832,042	1,594,602,092	3,821,434,134
Derivative financial instruments	99,723,102	-	99,723,102	76,226,529	-	76,226,529
Borrowed funds	257,236,999	301,499,355	558,736,354	272,201,469	487,089,238	759,290,707
Sub-ordinated debt	-	-	-	150,046,057	-	150,046,057
Debt securities issued	160,140,274	-	160,140,274	160,140,274	1,376,348,436	1,536,488,710
Lease liabilities	11,384,522	-	11,384,522	13,591,398	-	13,591,398
Other financial liabilities	585,013,657	36,268,290	621,281,947	474,984,608	27,396,366	502,380,974
	<u>4,466,230,690</u>	<u>2,623,687,452</u>	<u>7,089,918,142</u>	<u>3,465,839,773</u>	<u>3,648,015,870</u>	<u>7,113,855,643</u>
Off-balance foreign currency exposure, net		<u>350,481,276</u>			<u>1,368,791,743</u>	
Net foreign currency exposure		<u>(108,120,802)</u>			<u>(104,828,393)</u>	

**37. Risk management (contd.)**

**(4) Market risk (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
<b>At 31 December 2020</b>			
<b>Currency</b>			
USD	+/- 10%	+/- 3,220,395	+/- 230,000,000
OTHER	+/- 10%	+/- 7,626,615	+/- 230,000,000
<b>At 31 December 2019</b>			
<b>Currency</b>			
USD	+/- 10%	+/- 4,700,843	+/- 240,000,000
OTHER	+/- 10%	+/- 7,237,117	+/- 240,000,000

**Prepayment risk**

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income. If 20% of repayable financial instruments were prepaid at the beginning of the year, with all other variables held constant, the interest income for the year would be reduced by MNT 141,574,083 thousand (2019: MNT 140,321,853 thousand).

**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.

**38. 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.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2020

38. Fair value disclosures (contd.)

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

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 2020	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
<b>Financial assets</b>				
<i>Available-for-sale investment securities</i>				
Repossessed assets	–	–	–	–
Equity securities, at fair value	27,108,838	–	–	27,108,838
Quoted government bonds	25,542,064	–	–	25,542,064
Unquoted BoM treasury bills	–	688,492,320	–	688,492,320
Residential mortgage-backed securities	–	–	127,666,125	127,666,125
Derivative financial instruments	–	–	89,371,192	89,371,192
<b>Non-financial assets</b>				
Revalued properties	–	–	240,695,719	240,695,719
Investment properties	–	–	148,990,218	148,990,218
	<b>52,650,902</b>	<b>688,492,320</b>	<b>606,723,254</b>	<b>1,347,866,476</b>
<b>Financial liability</b>				
Derivative financial instruments	–	–	99,723,102	99,723,102
	–	–	<b>99,723,102</b>	<b>99,723,102</b>

At 31 December 2019	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
<b>Financial assets</b>				
<i>Available-for-sale investment securities</i>				
Repossessed assets	–	–	–	–
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
<b>Non-financial assets</b>				
Revalued properties	–	–	170,323,196	170,323,196
Investment properties	–	–	80,897,528	80,897,528
	<b>82,675,107</b>	<b>598,900,912</b>	<b>843,105,576</b>	<b>1,524,681,595</b>
<b>Financial liability</b>				
Derivative financial instruments	–	–	76,226,529	76,226,529
	–	–	<b>76,226,529</b>	<b>76,226,529</b>

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 2020 and 2019:

	Fair value 2020 MNT'000	2019 MNT'000	Valuation technique	Inputs
<b>Financial assets</b>				
Unquoted BoM treasury bills	688,492,320	598,900,912	Market value approach	Central bank policy and repo rates



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**Notes to the financial statements - 31 December 2020**

**38. Fair value disclosures (contd.)**

The were no change in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2020 and 2019.

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

<b>At 31 December 2020</b>	<b>Fair value MNT'000</b>	<b>Reasonable change</b>	<b>Sensitivity of the input to fair value MNT'000</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Range of inputs</b>
<b>Financial assets</b>						
Residential mortgage-backed securities	127,666,125	+/- 10%	+/- 12,766,613	Discounted Cash Flow method	Market interest rates	7.0% - 9.0%
Derivative financial assets	89,371,192	-/+ 100bps	- 8,796,578/ +8,615,479	Discounted Cash Flow approach	MNT discount rate Forward MNT/USD exchange rate	6.0 - 8.0%
<b>Non-financial assets</b>						
Revalued properties	240,695,719	+/- 10%	+/- 24,069,572	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 3.5 - 6.5 million per sq.meters
Investment properties	148,990,218	+/- 10%	+ 14,627,879/ - 15,120,866	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 4.0 million - 5.3 million per sq.meters; MNT 8.1 million - 8.2 million per sq.meters
<b>Financial liabilities</b>						
Derivative financial liability	99,723,102	-/+ 100bps	- 1,866,101/ +1,893,084	Discounted Cash Flow approach	MNT discount rate Forward MNT/USD exchange rate	6.0 - 8.0%
<b>At 31 December 2019</b>	<b>Fair value MNT'000</b>	<b>Reasonable change</b>	<b>Sensitivity of the input to fair value MNT'000</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Range of inputs</b>
<b>Financial assets</b>						
Residential mortgage-backed securities	97,023,096	+/- 10%	+/- 9,702,310	Discounted Cash Flow method	Market interest rates	7.0% - 9.0%
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	6.0 - 8.0%
<b>Non-financial assets</b>						
Revalued properties	170,323,196	+/- 10%	+/- 17,032,320	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 3.5 - 5.9 million per sq.meters
Investment properties	80,897,528	+/- 10%	+/- 8,089,753	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 5.2 million - 8.4 million per sq.meters
<b>Financial liabilities</b>						
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	6.0 - 8.0%

There were no changes in valuation techniques during the year ended 31 December 2020 and 2019. Management believes that the fair value of financial assets is unlikely to be materially different from their carrying value as of 31 December 2020.

38. Fair value disclosures (contd.)

Movements in fair value measurements within Level 3 during the year

	2020 MNT'000	2019 MNT'000
<b>Residential mortgage-backed securities</b>		
At 1 January	97,023,096	103,981,319
Addition	57,407,600	97,306,200
Sold	(45,439,400)	(104,456,500)
Interest accrued	11,983,971	9,496,549
Interest received	(11,376,516)	(9,304,472)
Transfer from UBCB due to the Merger	18,067,374	–
<b>At 31 December</b>	<b>127,666,125</b>	<b>97,023,096</b>
<b>Repossessed assets</b>		
At 1 January	–	75,260,890
Provision charged to retained earnings	–	(75,260,890)
<b>At 31 December</b>	<b>–</b>	<b>–</b>
<b>Derivative financial assets</b>		
At 1 January	494,861,756	379,263,246
Fair value gain recognised in OCI	6,693,889	6,054,050
Hedge ineffectiveness recognised in the profit or loss	–	29,688,815
Fair value gain recognised in profit or loss	11,779,616	71,710,734
Interest accrued, net	28,799,673	20,599,135
Interest received, net	(31,063,742)	(12,454,224)
Maturity of the FX swap	(421,700,000)	–
<b>At 31 December</b>	<b>89,371,192</b>	<b>494,861,756</b>
<b>Revalued properties</b>		
At 1 January	170,323,196	171,382,374
Addition	3,125,000	2,298,000
Disposal	(3,117,407)	–
Depreciation charged in profit or loss	(4,838,078)	(3,357,178)
Transfer from UBCB due to the Merger	75,203,008	–
<b>At 31 December</b>	<b>240,695,719</b>	<b>170,323,196</b>
<b>Investment properties</b>		
At 1 January	80,897,528	80,114,526
Additions	42,338,393	–
Transfer from UBCB due to the Merger	5,631,893	–
Revaluation	20,122,404	783,002
<b>At 31 December</b>	<b>148,990,218</b>	<b>80,897,528</b>
<b>Derivative financial liability</b>		
At 1 January	76,226,529	1,515,973
Fair value loss recognised in profit or loss	20,693,524	68,279,632
Interest accrued, net	33,871,788	20,005,094
Interest paid, net	(31,068,739)	(12,058,197)
Repayment	–	(1,515,973)
<b>At 31 December</b>	<b>99,723,102</b>	<b>76,226,529</b>

*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.

**38. Fair value disclosures (contd.)**

**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. 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 2020	Carrying amount MNT'000	Fair value MNT'000
<b>Financial assets</b>		
Loans and advances to customers	4,108,718,370	4,170,765,045
Investment securities held to maturity	835,875,836	857,425,440
<b>Total</b>	<b>4,944,594,206</b>	<b>5,028,190,485</b>
<b>Financial liabilities</b>		
Due to customers	5,311,418,183	5,304,351,899
Borrowed funds	558,736,354	558,736,354
Debt securities issued	160,140,274	160,140,274
<b>Total</b>	<b>6,030,294,811</b>	<b>6,023,228,527</b>
<b>As at 31 December 2019</b>		
<b>Financial assets</b>		
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
<b>Total</b>	<b>4,553,292,686</b>	<b>4,656,849,703</b>
<b>Financial liabilities</b>		
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
<b>Total</b>	<b>6,117,213,551</b>	<b>6,132,827,308</b>

**39. Related party disclosures**

The following are considered as related parties of the Bank:

- MNREC - The Bank owns 100% equity interest in MNREC (the investment has been fully written off) (see Note 16 (f))
- Valiant Art LLC - The Bank's executive officer's immediate relative owns Valiant Art LLC
- TDB Capital LLC – The Bank owns 10% equity interest in TDB Capital LLC
- MIK – An associate (see Note 17)
- Mongolian General Leasing LLC and its subsidiaries (“MGLL”) – The Bank owns 10% equity interest in MGLL
- National News Corporation LLC (“NNC”) – The Bank owns 19.63% equity interest in NCC
- NNC Publishing LLC, JCDecaux LLC - The companies are subsidiaries 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 of the Bank
- 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.

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**39. Related party disclosures (contd.)**

Significant transactions and balances with related parties as of 31 December 2020 and 2019 and for the years then ended were as follows:

At 31 December 2020	United Banking Corporation LLC MNT'000	Globull Investment and Development SCA LLC MNT'000	JCDecaux LLC MNT'000	MIK* MNT'000	TDB Capital LLC MNT'000	TDB Leasing LLC MNT'000	NNC* MNT'000	NNC Publishing LLC MNT'000	CNB Consulting LLC MNT'000	Absolute Management LLC MNT'000	MNREC MNT'000	Ulaanbaatar City Bank MNT'000	Valiant Art LLC MNT'000	Beneficial owner and its immediate family MNT'000	Key Management Personnel MNT'000
<b>Balances</b>															
Deposit and accrued interest	884,621	385	1,736,771	168,415,574	937,229	15,856,282	94,092	8,338	210	8,159	–	–	3,409	16,202	1,008,879
Loan and advances, accrued interest	2,949,768	–	–	15,789,248	13,490,080	23,961,444	5,327,898	–	7,623,863	–	–	–	–	132,564	1,772,722
Receivables and prepayments	–	–	–	1,085,442	–	–	1,113,594	–	–	–	25,937	–	–	–	–
RMBSSs	–	–	–	127,666,125	–	–	–	–	–	–	–	–	–	–	–
Accrued interest receivable on swap	–	–	–	5,880,842	–	–	–	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	558,248,580	–	1,024,508	–	–	–	–	–	–	–	–	–
Letter of credit and Letter of guarantee	–	–	–	–	–	15,227,687	–	–	–	–	–	–	–	–	–
Undrawn credit line	–	–	–	–	3,943	4,785	–	–	–	–	–	–	–	416,485	492,870
Derivative financial liability	–	–	–	82,581,091	–	–	–	–	–	–	–	–	–	–	–
<b>Transactions</b>															
<i>Interest income on</i>															
Loans and advances	211,710	–	–	3,886,590	1,105,730	2,294,819	426,477	–	1,120,304	–	–	857	6,129	11,091	235,234
RMBSSs	–	–	–	12,925,910	–	–	–	–	–	–	–	–	–	–	–
Placements in other banks	–	–	–	–	–	–	–	–	–	–	–	5,273,551	–	–	–
Swap	–	–	–	28,799,673	–	–	–	–	–	–	–	–	–	–	–
<i>Interest expense on</i>															
Deposits	3	2,379	21,008	91,300,479	76,037	346,906	1,091	–	382	–	–	–	29	362	159,484
Sub-ordinated debt	20,666,526	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Placements from other banks	–	–	–	–	–	–	–	–	–	–	–	1,489,939	–	–	–
Services obtained	–	–	–	–	–	–	3,456,281	–	–	–	–	–	–	–	–
Commission income	1,814	12	1,392	2,908,469	50,033	24,234	2,513	224	532	44	–	–	5,455	5,365	12,950
Remuneration	–	–	–	–	–	–	–	–	–	–	–	–	–	–	14,611,074

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**Notes to the financial statements - 31 December 2020**

**39. Related party disclosures (contd.)**

At 31 December 2019	United Banking Corporation LLC MNT'000	Globull Investment and Development SCA LLC MNT'000	JCDecaux LLC MNT'000	MIK* MNT'000	TDB Capital LLC MNT'000	TDB Leasing LLC MNT'000	NNC* MNT'000	CNB Consulting LLC MNT'000	Absolute Management LLC MNT'000	MNREC MNT'000	Ulaanbaatar City Bank MNT'000	Valiant Art LLC MNT'000	Beneficial owner and its immediate family MNT'000	Key Management Personnel MNT'000
<b>Balances</b>														
Deposit and accrued interest	82	238,372	520,181	102,412,450	945,120	22,826,624	52,889	122,280	4,672	-	-	26,116	1,664	3,082,887
Loan and advances, accrued interest	-	-	-	36,110,330	7,284,294	24,083,047	-	-	-	-	24,082	1,243,963	54,260	1,759,953
Receivables and prepayments	-	-	-	1,222,947	-	-	2,933,953	7,023,759	-	573,407	-	-	-	-
RMBSs	-	-	-	97,023,095	-	-	-	-	-	-	-	-	-	-
Accrued interest receivable on swap	-	-	-	8,144,911	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	435,050,735	-	1,314,627	-	-	-	-	-	-	-	-
Sub-Ordinated debt	150,046,057	-	-	-	-	-	-	-	-	-	-	-	-	-
Letter of credit and Letter of guarantee	-	-	-	-	-	12,528,522	-	-	-	-	-	-	-	-
Undrawn credit line	-	-	-	-	-	5,000	-	-	-	-	113,381	859	480,261	521,278
Deposits and placements by banks	-	-	-	-	-	-	-	-	-	-	54,974,866	-	-	-
Syndicated risk participation fund	-	-	-	-	-	-	-	-	-	-	89,688,397	-	-	-
Derivative financial liability	-	-	-	68,279,632	-	-	-	-	-	-	-	-	-	-
<b>Transactions</b>														
<i>Interest income on</i>														
Loan and advances, accrued interest	-	-	-	2,764,674	939,090	2,722,552	-	-	-	-	4,483	19,084	15,390	198,881
RMBSs	-	-	-	10,071,178	-	-	-	-	-	-	-	-	-	-
Placements in other banks	-	-	-	-	-	-	-	-	-	-	295,352	-	-	-
Swap	-	-	-	20,599,135	-	-	-	-	-	-	-	-	-	-
<i>Interest expense on</i>														
Deposits	2,559	7,036	17,452	67,633,617	169,322	535,523	4,870	4,035	158	-	-	94	667	281,899
Placements from other banks	-	-	-	-	-	-	-	-	-	-	11,975,680	-	-	-
Services obtained	-	-	-	-	-	-	3,612,672	-	-	-	-	-	-	-
Commission income	-	12	1,711	2,995,977	1,992	35,956	1,009	715	25	-	5,657	12,520	1,110	11,330
Remuneration	-	-	-	-	-	-	-	-	-	-	-	-	-	9,053,454

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**Notes to the financial statements - 31 December 2020**

**39. Related party disclosures (contd.)**

\*In accordance with the Banking law of Mongolia, a bank can only hold up to 10% of the total shares issued by a single company and if the holding exceeds 10%, the Banking Law requires excess amount to be adjusted from the Tier I and II capitals when calculating capital adequacy and risk weighted capital ratios. In addition, the maximum amount of the credit exposures and other credit-equivalent assets relating to a single related party shall not exceed 5% of the total equity of the Bank, and the aggregate of total exposures to the related parties shall not exceed 20% of the total equity of the Bank.

As at 31 December 2020, the equity interests held in MIK and NNC exceeds the 10% requirement due to the Merger. However, the compliance with the regulatory ratio of 10% for the investments made in one company was deferred by BoM under resolution dated 16 July 2020 until 30 June 2021.

Key management have banking relationships with the Bank which are entered into in the normal course of business.

**40. 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 37 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

<b>At 31 December 2020</b>	<b>Less than 12 months MNT'000</b>	<b>More than 12 months MNT'000</b>	<b>Total MNT'000</b>
<b>Assets</b>			
Cash and balances with Bank of Mongolia	856,968,353	–	856,968,353
Due from other banks and financial institutions	570,008,607	–	570,008,607
Financial investments	941,578,037	770,420,504	1,711,998,541
Investment in associate	–	40,813,475	40,813,475
Derivative financial instruments	5,880,842	83,490,350	89,371,192
Loans and advances to customers	1,558,681,703	2,550,036,667	4,108,718,370
Other assets	54,637,026	58,022,280	112,659,306
Investment property	–	148,990,218	148,990,218
Assets held for sale	4,138,693	–	4,138,693
Property and equipment	–	458,644,011	458,644,011
Right-of-use assets	–	10,132,850	10,132,850
Intangible assets	–	4,374,414	4,374,414
<b>Total assets</b>	<b>3,991,893,261</b>	<b>4,124,924,769</b>	<b>8,116,818,030</b>
<b>Liabilities</b>			
Due to banks and other financial institutions	15,623,949	87,322,195	102,946,144
Repurchase agreements	194,154,225	30,133,391	224,287,616
Due to customers	4,843,816,512	467,601,671	5,311,418,183
Derivative financial instruments	10,749,946	88,973,156	99,723,102
Borrowed funds	284,570,837	274,165,517	558,736,354
Debt securities issued	160,140,274	–	160,140,274
Other liabilities	92,830,546	535,572,700	628,403,246
Lease liabilities	5,165,993	6,218,529	11,384,522
Income tax liabilities	111,957	–	111,957
Deferred tax liabilities	–	2,155,509	2,155,509
<b>Total liabilities</b>	<b>5,607,164,239</b>	<b>1,492,142,668</b>	<b>7,099,306,907</b>
<b>Net*</b>	<b>(1,615,270,978)</b>	<b>2,632,782,101</b>	<b>1,017,511,123</b>

**TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC**

**Notes to the financial statements - 31 December 2020**

**40. Maturity analysis of assets and liabilities (contd.)**

<b>At 31 December 2019</b>	<b>Less than 12 months MNT'000</b>	<b>More than 12 months MNT'000</b>	<b>Total MNT'000</b>
<b>Assets</b>			
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
<b>Total assets</b>	<b>4,155,382,151</b>	<b>3,668,315,414</b>	<b>7,823,697,565</b>
<b>Liabilities</b>			
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	20,666,526	129,379,531	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
<b>Total liabilities</b>	<b>5,894,454,205</b>	<b>1,225,540,965</b>	<b>7,119,995,170</b>
<b>Net*</b>	<b>(1,739,072,054)</b>	<b>2,442,774,449</b>	<b>703,702,395</b>

\*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.

**41. 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% (2019: 9%) and risk weighted capital ratio of at least 12% (2019: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank as at 31 December were as follows:

	<b>2020</b>	<b>2019</b>
Core capital adequacy ratio	14.81%	11.31%
Risk-weighted capital ratio	16.33%	17.04%

## TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

### Notes to the financial statements - 31 December 2020

#### 41. Capital adequacy (contd.)

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

	2020 MNT'000	2019 MNT'000
<b>Tier I Capital</b>		
Share capital	72,723,171	50,000,707
Share premium	251,086,754	19,298,006
Retained earnings	500,644,317	482,926,897
<b>Total Tier I Capital</b>	<u>824,454,242</u>	<u>552,225,610</u>
<b>Tier II capital</b>		
Revaluation surplus	84,479,410	129,231,895
Subordinated loan	–	150,046,057
<b>Total Tier II Capital</b>	<u>84,479,410</u>	<u>279,277,952</u>
<b>Total capital /capital base</b>	<u><b>908,933,652</b></u>	<u><b>831,503,562</b></u>

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

%	2020 Risk Assets MNT'000	Weighted MNT'000	2019 Risk Assets MNT'000	Weighted MNT'000
0	2,482,196,387	–	3,196,916,277	–
20	577,936,375	115,587,275	168,630,881	33,726,176
50	924,083,487	462,041,743	576,564,253	288,282,127
80	–	–	634,142,149	507,313,719
90	719,311,204	647,380,084		
100	3,315,767,647	3,315,767,647	3,173,285,934	3,173,285,934
125	109,830,369	137,287,961	–	–
150	441,659,353	662,489,030	488,028,366	732,042,549
<i>Adjustments:</i>				
Operational risk ratio		92,451,036		83,127,737
Foreign exchange risk ratio		132,773,725		63,215,152
<b>Total</b>	<u><b>8,570,784,822</b></u>	<u><b>5,565,778,501</b></u>	<u><b>8,237,567,860</b></u>	<u><b>4,880,993,394</b></u>

#### 42. Events after reporting date

##### *Banking law reform*

On 28 January 2021, the State Parliament of Mongolia has approved amendments to the Banking law of Mongolia. The law is being reformed mainly in the following four major areas:

- 5 of the 12 commercial banks of Mongolia (including the TDB), are defined as systemically important banks requiring for an IPO by 30 June 2022. The remaining banks have an option to operate as a limited liability company or a listed company.
- Restricting a single shareholder and together with its' related parties from owning more than a 20% stake in a commercial bank. Banks should implement this change by 31 Dec 2023.
- Revisited the priorities in the payment of claims in case of a liquidation of a bank and citizens and households are prioritised to receive their cash savings and current accounts before legal entities.
- Redefined the definition of “systemically important banks” which was previously defined as having more than 5% of the market share in terms of their assets. Now, the amendments rule that the banks' influence is determined on the basis of their assets, their percentage in the transaction flow in the payment system, core activities, the state of their relevance, the number of their customers and other features, instead of their share in the banking system only.

Management is not aware of other events that occurred after the end of the reporting period, which would have any impact on these financial statements.

#### 43. Mongolian translation

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