TDB

TRADE & DEVELOPMENT BANK

ANNUAL REPORT 2020

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01 GENERAL OVERVIEW

30 YEARS OF PROSPERITY

On October 19, 1990, two-tier banking system was established in Mongolia and the first commercial bank, the Trade and Development Bank, was established. Since that historic day, Mongolia's banking and financial sector has developed, spread its roots, and is now celebrating its 30th anniversary.

For thirty years, the Trade and Development Bank has been a pioneer and role model throughout its history and we are proud to have been one of the pillars of the Mongolian economy.

The Trade and Development Bank has successfully issued five bonds worth $ 1.14 billion in the international market since 2007, providing soft loans to customers, contributed towards increasing the country's foreign exchange reserves, stabilizing the national currency, and increasing trade competitiveness. We are not only the first Mongolian company to issue bonds in the international market, but also, to date, we remain the only commercial bank.

In addition, we have continuously introduced innovative products and services that meet the financial needs of our customers and business partner first to market. More than 36,000 companies operating in Mongolia use our banking products and services to expand their businesses, which accounts for 36% of the corporate banking market. In addition, we process 85 percent of Mongolia's total foreign remittance and 55 percent of trade finance services. We also have extensive network of correspondent relationship banks, the largets in the Mongolian market, and is a leader in the industry with a presentative office in a foreign market. In the coming years, the Trade and Development Bank will continue to develop our banking services to a new level based on the market needs of our customers, increase their satisfaction with our services, and maintain our leading position.

We would like to express our deepest gratitude to all our valued customers, business partners and international partners who have trusted us and worked together towards prosperity for the past 30 years. Lastly, we are grateful to the pioneers who have laid the foundations of the TDB Culture, and to the leader and the staff, current and previous, who have continuously upheld and strengthened that culture for the past 30 years, and we would like to wish you all the best in your future endeavours.

TDB
TRADE & DEVELOPMENT BANK

BANK LOGO

The logo was designed based on a coin, symbolizing infinitely flowing wealth towards the money chest from cardinal directions with infinite circulation of money to grow and accumulate wealth and treasure in abundance.

SLOGAN

"Together towards prosperity"

The slogan of TDB calls upon, unifies and inspires employees, customers and investors to walk together towards development and prosperity.

MISSION

We provide comprehensive financial services that exceed expectations to our customer to enable them to achieve their asipirations through innovative technology.

CORE VALUES

Бидний харилцагч	Үнэлэмжтэй	Төгс төгөлдөр	Эгнэгт нээлттэй	Эвсэг баг	Гүйцэтгэл төгс	Чин хүндлэл
Б	Ү	Т	Э	Э	Г	Ч
C	R	E	A	T	O	R
Customer centric	Recognition	Excellence	Accessible	Teamwork	Outperforming	Respect

VISION

To be the leading bank in developing Mongolia's prosperity.

GREETINGS OF THE CEO

Dear customers, partners and colleagues, I am very happy to share with you our bank's achievements in 2020 and the news of 30th anniversary of our bank.

With sincere regards,
Chief Executive Officer
ORKHON Onon

For the Trade and Development Bank, 2020 was a year of great achievements and transformation. We successfully repaid the US $500 million sovereign guaranteed bonds we had issued on the international market in 2015 with our own internal liquidity and proved for the fifth time that we are a reliable bank that has won the trust of investors and customers. The successful repayment of the bonds at a time of adverse economic conditions due to the global pandemic haves restored Mongolia's reputation in the international market in April 2020, TDB was accredited as the Climate Green Fund's national direct acces entity. As a result, TDB is now able to receive long-term, concessional financing from the GCF to finance national projects and programs to reduce greenhouse gas emissions and reduce the risk of climate change-related disasters. As part of the strategy to fully transition to the new business model, which started in 2019, we have merged with the 21-year-old Ulaanbaatar City Bank and have completed the largest consolidation in the history of the Mongolian banking sector. This year also marks the 30th anniversary of the Bank's founding, but due to the restrictions related to combatting the COVID-19 pandemic, it was not possible to hold celebrations with our valued customers, partners, and business associates.

Despite the continuing adverse economic conditions caused by the pandemic and the impact on the banking sector, we have worked together to adapt our business to meet our customers' businesses and financial difficulties in a flexible manner to the best of our ability. Furthermore, I would also like to emphasize that we will continue to actively participate and play crucial rolre in implementing the policies and measures taken by the government and the central bank, related to payments, loans and saving, to support our customers and employees overcome this pandemic together. To our esteemed customers, business partners, international partners, and employees, I would like to convey our deepest gratitude dor the trust you have shown us for the past 30 years and would like to convey our congratulations for the 30 year's history of the Bank that have defined the country's prosperity.

SENIOR MANAGEMENT TEAM

Orkhon. O
Chief Executive Officer

BANZRAGCH. O
First Deputy Chief Executive Officer

ENKHMEND. A
First Deputy Chief Executive Officer

OTGONBILEG .D
Deputy Chief Executive Officer

BAYARMAA. B
Deputy Chief Executive Officer

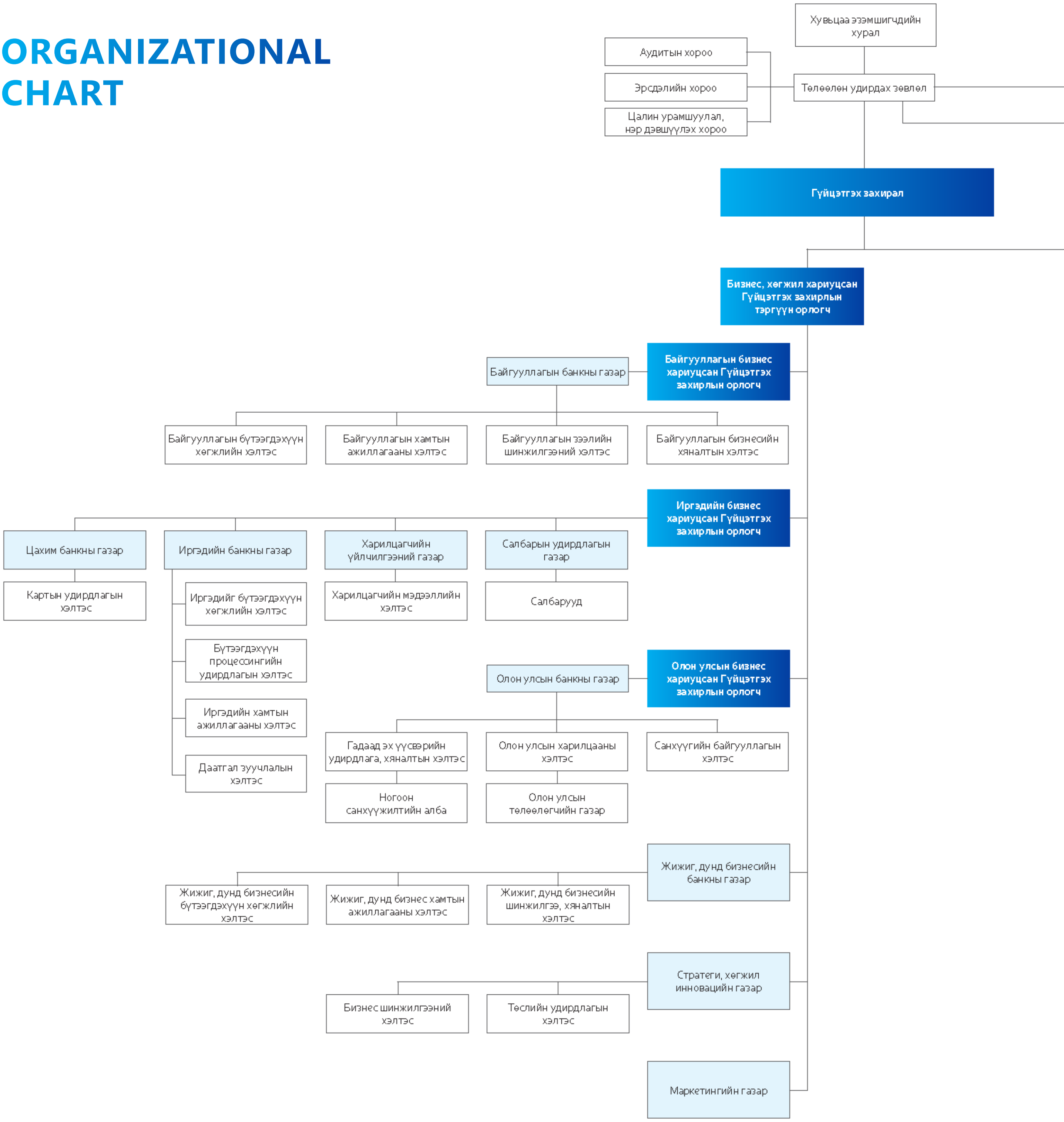
NYAMRENTSEN. D
Deputy Chief Executive Officer

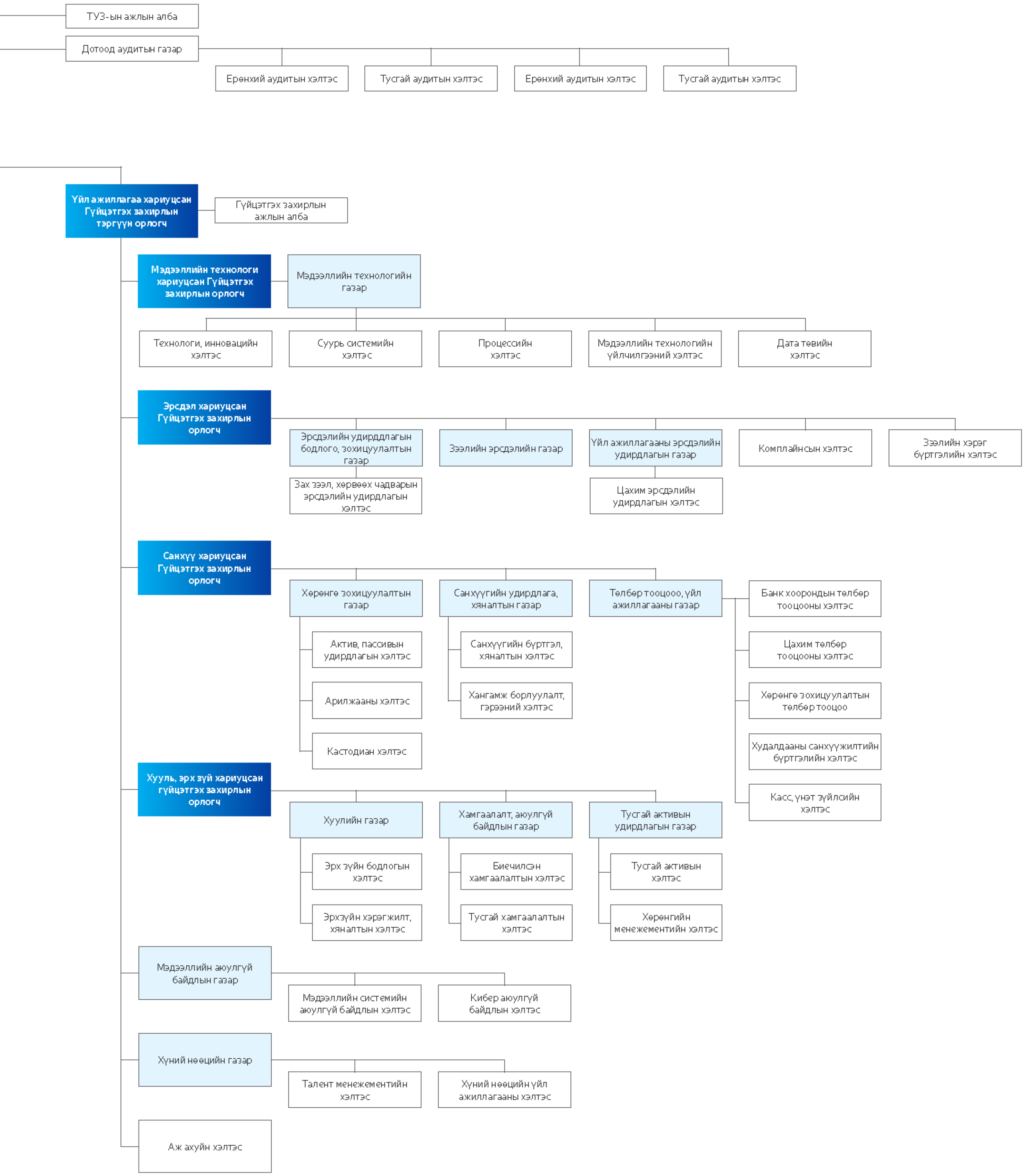
SOLONGO. CH
Deputy Chief Executive Officer

BAATAR. S
Deputy Chief Executive Officer

GANBAYAR. TS
Deputy Chief Executive Officer

ORGANIZATIONAL CHART




ТУЗ-ын ажлын алба
Дотоод аудитын газар
Ерөнхий аудитын хэлтэс
Тусгай аудитын хэлтэс
Ерөнхий аудитын хэлтэс
Тусгай аудитын хэлтэс
Үйл ажиллагаа хариуцсан Гүйцэтгэх захирлын тэргүүн орлогч
Гүйцэтгэх захирлын ажлын алба
Мэдээллийн технологи хариуцсан Гүйцэтгэх захирлын орлогч
Мэдээллийн технологийн газар
Технологи, инновацийн хэлтэс
Суурь системийн хэлтэс
Процессийн хэлтэс
Мэдээллийн технологийн үйлчилгээний хэлтэс
Дата төвийн хэлтэс
Эрсдэл хариуцсан Гүйцэтгэх захирлын орлогч
Эрсдэлийн удирдлагын бодлого, зохицуулалтын газар
Зах зээл, хөрвөх чадварын эрсдэлийн удирдлагын хэлтэс
Зээлийн эрсдэлийн газар
Үйл ажиллагааны эрсдэлийн удирдлагын газар
Цахим эрсдэлийн удирдлагын хэлтэс
Комплайнсын хэлтэс
Зээлийн хэрэг бүртгэлийн хэлтэс
Санхүү хариуцсан Гүйцэтгэх захирлын орлогч
Хөрөнгө зохицуулалтын газар
Актив, пассивын удирдлагын хэлтэс
Арилжааны хэлтэс
Кастодиан хэлтэс
Санхүүгийн удирдлага, хяналтын газар
Санхүүгийн бүртгэл, хяналтын хэлтэс
Хангамж борлуулалт, гэрээний хэлтэс
Төлбөр тооцоо, үйл ажиллагааны газар
Банк хоорондын төлбөр тооцооны хэлтэс
Цахим төлбөр тооцооны хэлтэс
Хөрөнгө зохицуулалтын төлбөр тооцоо
Худалдааны санхүүжилтийн бүртгэлийн хэлтэс
Касс, үнэт зүйлсийн хэлтэс
Хууль, эрх зүй хариуцсан гүйцэтгэх захирлын орлогч
Хуулийн газар
Эрх зүйн бодлогын хэлтэс
Эрх зүйн хэрэгжилт, хяналтын хэлтэс
Хамгаалалт, аюулгүй байдлын газар
Биечилсэн хамгаалалтын хэлтэс
Тусгай хамгаалалтын хэлтэс
Тусгай активын удирдлагын газар
Тусгай активын хэлтэс
Хөрөнгийн менежментийн хэлтэс
Мэдээллийн аюулгүй байдлын газар
Мэдээллийн системийн аюулгүй байдлын хэлтэс
Кибер аюулгүй байдлын хэлтэс
Хүний нөөцийн газар
Талент менежментийн хэлтэс
Хүний нөөцийн үйл ажиллагааны хэлтэс
Аж ахуйн хэлтэс

HIGHLIGHTS OF 2020

With the help of artificial intelligence, we can protect our customers from possible risks in their payments.

Facilitated 80 percent of foreign payments and provided more than 55 percent of trade finance deals.

Repaid $500 million notes with its internal liquidity.

Celebrated the 30th anniversary.

Consolidated a systemically influential Ulaanbaatar City Bank.

Became a national direct access accredited entity of the United Nations Green Climate Fund.

Updated international PCI DSS standard for payment card information security.

We have fully implemented structural changes in line with our new business strategy, goals, and vision

Delivered a brand-new version of TDB Online to our customers.

ХЯЗГААРГҮЙ МӨРӨӨДӨЛ

Continued commitment to the *Boundless Dream* project to create shared value.

ХУРИМТЛАЛТАЙ МОНГОЛ

Launched the *Mongolians with Savings* campaign.

MACROECONOMIC ENVIRONMENT

"The pandemic has had a negative impact on the economic environment."

The Covid-19 pandemic affected 45 percent of businesses severely, 28 percent moderately, and 15 percent mildly. Enterprises operating in the tourism, education, hospitality, catering, and transportation and warehousing services were the most affected. The mining and service sectors (coal transportation, air transport, tourism) were affected severely. However, it had relatively little impact on agriculture, health, real estate, construction, and telecommunications.

"Problems with repayment of consumer loans

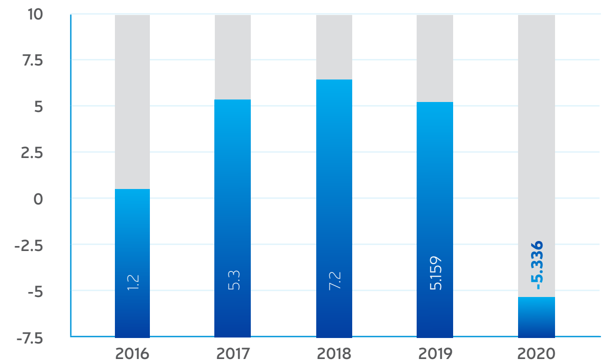
In the reporting year, as part of measures taken by the Government of Mongolia to prevent the spread of the Covid-19 pandemic, Mongolia's closure of the border and the imposition of a quarantine regime led to stagnation of export activities, reduced wholesale and retail supply, non-food trade and decrease in transportation and rental service revenues. We followed the decision of the Bank of Mongolia and supported our customers by postponing their repayment of loans and did not reduce the loan classification.

"Highlights of the economy"

- During the pandemic, Mongolia donated 30,000 sheep to its neighbor, China.
- In order to reduce the impact of the pandemic on the economy, the government has implemented a MNT 6 trillion program, including a zero-sum social security payment for a period of 6 months.
- Mongolia was removed from the FATF Gray List on October 24, 2020.

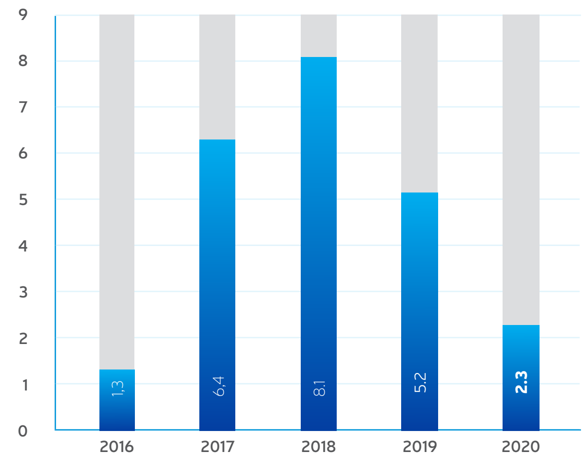
GDP

GDP has declined over the past two years due to the pandemic and increased external and internal uncertainty.



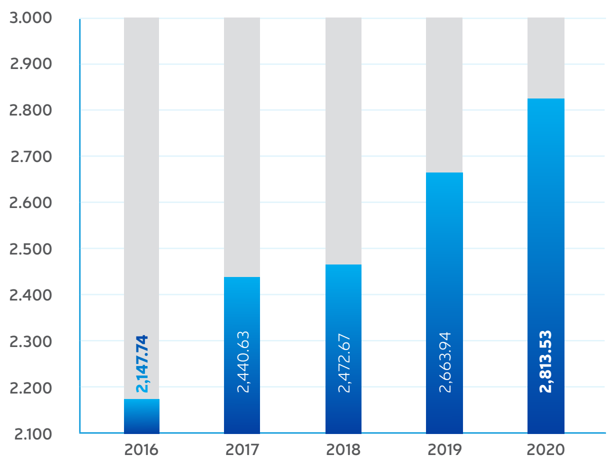
Net increase, decrease - All

Annual Inflation rate



Inflation rate

CURRENCY EXCHANGE RATE (USD to MNT)



USD, monthly average

BANKING SECTOR

Worldwide, central banks are working to reduce pressure on the banking system by decreasing interest rates to historically low levels, boosting monetary support, and providing reserves through open market operations.

However, in 2020, the total amount of loans issued to businesses and individuals decreased by 1.3 trillion MNT or 6.4 percent compared to the end of the previous year.

Out of the total loan portfolio of 19.7 trillion MNT, 9.5 trillion MNT or 48.2 percent are personal loans and 10.2 trillion MNT or 52.8 percent are corporate loans.

The Government of Mongolia and the Bank of Mongolia, in cooperation with commercial banks, have made flexible changes in loan repayment schedules, terms and conditions to help individuals and businesses cope with the challenges of the pandemic with lessened economic and financial pressures.

The decline in lending of the banking sector by 6.4 percent in the reporting year indirectly reflects the impact of the pandemic on living standards and corporate profitability. Loans to private businesses accounted for 74.5 percent of non-performing loans and 79.4 percent of overdue loans in the reporting year. Non-performing loans reached MNT 2,002.3 billion, an increase of 10 percent from the same period in 2019. Non-performing loans accounted for 21.0 percent in mining, 19.6 percent in manufacturing, 13.5 percent in construction, 10.4 percent in real estate, and 7.4 percent in trade. The sharp increase in non-performing loans highlights the need to focus on the quality stability of the banking sector.

Compared to the previous year, at the end of December 2020, the weighted average interest rate on MNT loans decreased by 16.1 percent or 0.9 percent per annum, and the weighted average interest rate on foreign currency loans decreased by 10.3 percent or 0.4 percent per annum. In 2020, the total amount of deposits was 18.0 trillion MNT, of which 85.4 percent or 15.4 trillion MNT are personal deposits and 14.6 percent or 2.6 trillion MNT are corporate deposits. Foreign currency deposits account for 25.7 percent of total deposits. Of this, 22.8 percent of individuals' deposits and 42.8 percent of corporate deposits were foreign currency deposits.

The weighted average interest rate on deposits is 10.5 percent for MNT deposits, 4.1 percent for foreign currency deposits, and 8.8 percent for MNT deposits of private organizations. The relatively low decline in deposit rates indicates strong competition between banks for the central deposits of a few large depositors.

BRIEF FINANCIAL STATEMENT

Separate financial statements BILLION /MNT/

ASSETS	2018	2019	2020
Cash and balances with Bank of Mongolia	1,015.0	1,096.1	857.0
Due from other banks	279.8	301.4	570.0
Financial investments	1,759.1	1,832.6	1,712.0
Investment in subsidiaries and associates	-	-	40.8
Derivative financial instruments	379.3	494.9	89.4
Loans and advances,net	3,054.7	3,503.2	4,108.7
Other assets	250.6	103.8	112.7
Investment properties	80.1	80.9	149.0
Assets held for sale	64.9	-	4.1
Property, plant and equipment	397.5	392.3	458.6
Right of use assets	-	12.7	10.1
Intangible assets	2.8	5.8	4.4
TOTAL ASSETS	**7,283.8**	**7,823.7**	**8,116.8**
LIABILITIES	**2018**	**2019**	**2020**
Due to other Banks	182.0	189.4	102.9
Repurchase agreement	65.0	65.0	224.3
Due to Customers	3,522.8	3,821.4	5,311.5
Derivative financial instruments	1.5	76.2	99.7
Borrowed Funds	975.8	759.3	558.7
Sub-ordinated debt	-	150.0	-
Debt securities issued	1,461.2	1,536.5	160.1
Other liabilities	146.6	508.6	628.4
Lease liabilities	-	13.6	11.4
Income tax liabilities	-	-	0.1
Deferred tax liabilities	-	-	2.2
TOTAL LIABILITIES	**6,355.0**	**7,120.0**	**7,099.3**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	**2018**	**2019**	**2020**
Ordinary shares	55.2	50.0	72.7
Share premium	210.4	19.3	251.1
Revaluation reserves	129.2	129.2	169.0
AFS reserve	10.8	22.2	24.1
CFHedge reserve	29.4	-	-
Retained earnings	493.8	483.0	500.6
TOTAL EQUITY	**928.8**	**703.7**	**1,017.5**
TOTAL EQUITY AND LIABILITIES	**7,283.8**	**7,823.7**	**8,116.8**

Income Statements

BILLION /MNT/

	2018	2019	2020
Interest income	664.5	701.6	707.9
Interest expense	(476.3)	(521.7)	(506.2)
Net interest income	188.2	179.9	201.7
Net fee and commission income	37.9	40.4	39.4
Other operating income (net)	38.8	32.1	(5.7)
Net non-interest income	76.7	72.5	33.7
Operating income	264.9	252.4	235.4
Operating expenses	(91.1)	(129.9)	(131.6)
Credit loss expense/(reversal)	(129.1)	(58.1)	(64.7)
Share of loss of an associate	-	-	(14.5)
Profit before tax	44.7	64.4	24.6
Income tax expense	(0.3)	(0.0)	(3.6)
Profit for the year	**44.4**	**64.4**	**21.0**

Key financial ratios

Profitability	2018	2019	2020
Cost-to-income ratio	34.4%	51.5%	55.9%
Net interest margin	3.5%	3.1%	3.5%
ROE	4.8%	9.1%	2.1%
ROA	0.6%	0.8%	0.3%
Growth rate			
Asset growth	6.3%	7.4%	3.7%
Loan growth	10.5%	14.7%	17.3%
Due to customers growth	14.3%	8.5%	39.0%
Equity growth	10.1%	-24.2%	44.6%
Asset quality			
Loan / Deposit	99.0%	103.0%	86.8%
Loan to asset ratio	47.9%	50.3%	56.8%
Liquidity ratio	42.3%	32.1%	39.3%
Capital			
Tier 1 Capital Adequacy Ratio	16.6%	11.4%	14.8%
Capital Adequacy Ratio	19.5%	17.0%	16.4%

CORPORATE GOVERNANCE

Excellence in corporate governance is a fundamental aspect of corporate sustainability, and TDB implements a comprehensive governance framework in line with best international practices. Our governance structure determines the fundamental relations among the members of Representative Governing Board, management, shareholders, and other stakeholders. It defines the framework in which ethical values are established and the context in which corporate strategies and objectives are set.

Governing Board

Our board operates withand requires at all levels, impeccable values, honesty and openness. Through its processes, it achieves transparent, open governance and communications under all circumstances addressed. The board provides vision and strategy to direct and support banking operations.

Management team

The management team of TDB consists of competent managers in banking and finance. Prudent corporate governance structure, our governance policies and practices support the ability of directors to supervise management and enhance long term shareholder value.

Corporate governance purpose

Purpose of corporate governance is to improve corporate governance and bring it in line with international best practices. To be internationally recognized, to have a reputable value, and to be able to attract real investment.

Employees

TDB is committed to providing faithful, safe, challenging and rewarding work, recognizing the importance of attracting and retaining high quality staff and consequently, being in a position to excel in customer service.

Us

TDB is strongly committed to maintain an ethical workspace, complying with legal and ethical responsibilities. As we work to serve our customers, clients, and communities and generate return for our shareholders, we understand that success is only meaningful when it is achieved in a noble way.

Board of Directors

Chairman:

Mr. ERDENEBILEG Doljin

Director Executive Vice Chairman:

Mr. Randolph Koppa

Director: **Mr. Khurelbaatar Dambiijav**

Ms. Gantugs Damin (2020.08)

Ms. Yanjmaa Dagmid

Independent director:

Mr. Shagdarsuren Zuunai (2020.05)

Ms. Bolormaa Jalbaa

Mr. Delgersaikhan Jamsrandorj

Secretary of the Board:

Ms. Batchimeg Unurbat

INTERNAL AUDIT, INTERNAL AUDIT CONTROL SYSTEM

TDB's Internal Audit activities are based on the principle of reporting to the Board of Directors and the Audit Committee and systematically evaluates the efficiency of all banking activities from the professional point of view of internal audit, assists in achieving the set goals, provides consulting services and reporting the results of the audit to the Executive Management.

Internal Audit Department

The Internal Audit Department is based on the International Professional Practice Framework, issued by the International Institute of Internal Auditors (IIA), and exemplifies international best practices.

Within the framework of internal audit activities in the reporting year:

- In addition to performing its core functions and adding value to the bank, it has contributed to risk reduction and cooperation at all levels of the bank's operations.
- Within the framework of restructuring, a new Information Technology Audit Department and Quality Management Department were established under the Internal Audit Department, and recommendations and advice were provided at all levels of the bank in accordance with international standards.

In 2021, we will aim to introduce new versions of audit software, make progress in continuous audits and remote audits, and stabilize the quality management department.

Internal control system

Internal control is an integral part of a bank's day-to-day operations and a risk mitigation system at all levels of business and operations. It involves senior management, executives, employees and stakeholders of the bank, and the Audit Committee and the Internal Audit Department evaluate the effectiveness and efficiency of internal control. It is also necessary to have an effective control system at all levels of the business. These include management-level oversight, site-specific oversight, on-site oversight, compliance implementation, regulatory policies, procedures, guidelines, and software authorization. TDB is constantly improving its internal control system. For example, all units of the bank follow the "Internal Control Matrix" approved by the CEO, and the regulations include provisions related to internal control, the role of control in the job descriptions of employees, and a workplace and reporting system with control functions.

SUSTAINABILITY

We strive to create the right standards for long-term sustainable development in our society by supporting and financing environmentally friendly businesses, emphasizing sustainability and accountability in our business operations.

In 2012, we became the first commercial bank in Mongolia to implement a completely new concept for Mongolia, the Environmental and Social Responsibility Risk Management System (ESMS), in partnership with the Development Bank of the Netherlands (FMO).

In November 2013, all Mongolian commercial banks signed a joint declaration to implement the "Mongolia Sustainable Finance (SF)" program, which was a significant step forward for the future development of our country. By working together, commercial banks are committed to the vision of sustainable development by tackling environmental issues such as water, soil, air pollution, climate change, and human rights abuses, and reducing environmental and social risks.

In 2020, the Bank began to operate under a new organizational structure, including the establishment of a Green Funding Office (GFO) under the Foreign Funding Management and Monitoring Unit of the International Banking Department. GFO is actively working with international financial partners to develop, implement and sustain global best practices in sustainable finance and green development.

Environmental and social responsibility policy

In addition to complying with Mongolia's relevant laws and regulations in our environmental and social responsibility policies and activities, we comply with the following international principles:

- Ten principles of the UN Global Compact;
- United Nations Environment Program finance initiative: Declaration of financial institutions on environment and sustainable development;
- Tripartite Declaration of Principles of the International Labor Organization on Transnational Corporations and Social Policy;
- International Finance Corporation (IFC) Eight Performance Standards;
- Eight principles of Sustainable Finance of the Mongolian Sustainable Finance Association (SFA);
- Seven principles of Belt and Road Initiative Green Investment in its operations and financial transactions.

Gender equality policy

We consolidated and revised the Trade and Development Bank's Gender Policy for Customers and the Trade and Development Bank's internal Gender Policy to prepare and use the Gender Equality Policy in accordance with international standards.

This policy and action plan take into account Mongolia's legislation on gender equality, national programs and best practices of other international organizations, and is designed to support the UN Sustainable Development Goals on Gender Equality. In addition, it is in line with the Mongolia's Sustainable Development Vision 2030, the Law on Gender Equality, the National Program on Gender Equality (2017-2021), and the Gender Policy of the organizations and agencies under the Ministry of Finance (2016-2024).

The policy aims to implement necessary measures to ensure equality, to support projects and programs aimed at ensuring gender equality, empowering women, raising awareness, balancing gender relations and preventing discrimination.

Together towards sustainability

TDB has been providing its own green loan products from its internal liquidity since 2020. We have also partnered with Shoppy.mn, a major online retail shopping platform, to provide green loan services and support responsible customer choices.

In 2020, 17 SDGs are being implemented, four of which are of strategic importance. In 2020, approximately MNT 972 billion in loan was financed that support SDGs.

To make banking products and services accessible to all segments of society, the use of Braille letters has begun at ATM services and bank branches.

4 SUSTAINABLE DEVELOPMENT OBJECTIVES TDB'S IMPLEMENTING

4 QUALITY EDUCATION

Targets

4.1 by 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes.

4.3 by 2030 ensure equal access for all women and men to affordable quality technical, vocational and tertiary education, including university.

4.5 by 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous people, and children in vulnerable situations.

TDB's 2020 activities

The Library Project slowed slightly in 2020 due to the pandemic, renovating four school libraries and contributing to the education of more than 10,000 children.

In 2020, 3,379 employees received internal training in duplicate these include:

- Sustainable financing training
- Training for new relationship managers on ESD evaluation and Green Loan registration
- Human rights, child rights and child protection training for all staff
- Training on gender equality and prevention of sexual harassment in the workplace, and climate finance for department and division heads.
- As part of the merger of the two banks, relevant trainings were organized for all new employees.

5 GENDER EQUALITY

Targets

5.1 end all forms of discrimination against women and girls everywhere.

5.5 ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life.

5.c adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.

TDB's 2020 activities

The Bank has a Gender Committee that oversees gender-related activities, while the Gender Equality Policy has been implemented at all levels of the Bank, as well as in relation to the Bank's clients. Therefore, TDB continues to contribute to the promotion of gender-sensitive participation of women and men by ensuring gender equality in the Bank's operations, products, and services.

As of 2020, 63 percent of the Bank's employees are women and 37 percent are men. Furthermore, 44 percent of the bank's mid-level management is female, and 56 percent is male.

As of the end of 2020, 59 percent of TDB's small and medium business customers' are owned by men, while 41 percent are women owned. As for the gender composition of our retail customers, 35 percent are men, and the remaining 65 percent are women.

8 DECENT WORK AND ECONOMIC GROWTH

Targets

8.3 promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalization and growth of micro-, small- and mediumsized enterprises including through access to financial services.

8.10 Strengthen the capacity of domestic financial institutions to encourage and to expand access to banking, insurance and financial services for all.

TDB’s 2020 activities

We have updated our online service to make financial services more accessible. TDB serves more than 400 large corporations in all sectors of Mongolia. As of December 31, the Bank has reached customers through 95 branches, 283 ATMs and 9,166 POS terminals.

Starting from 2020, TDB has been providing its customers with consumer green loan products from its own liquidity. These include electric heaters, thermal insulation materials, small-scale treatment plants, eco-toilets, electric cars, scooters, energy-efficient homes, and energy-efficient products. In 2020, 1879 billion MNT was disbursed to 688 small and medium business customers and about 256.6 billion MNT was disbursed to 4,322 individuals.

As of the 4th quarter of 2020, TDB’s green loan portfolio was MNT 55.6 billion or approximately USD 19.52 million. Compared to the third quarter of 2020, the bank’s green loan portfolio increased by 67.8% and is expected to increase further in 2021.

In addition, the amount of TDB’s social loans in 2020 is approximately MNT 916.6 billion or USD 320.77 million. Compared to 2019, it has increased by about 15 percent.

13 CLIMATE ACTION

Targets

13.3 improve education, awareness raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction, and early warning

13.a a implement the commitment undertaken by developed country Parties to the UNFCCC to a goal of mobilizing jointly USD100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible.

TDB’s 2020 activities

Initiated a “Green Hour” campaign to save energy by turning off lights for 1 hour every day. The bank collects and disposes of used batteries and plastic waste bins for waste sorting. The collected hazardous waste is delivered to the Mongolian National Waste Recycling Association and the Center for Freshwater Resources and Environmental Protection.

In April 2020, the Bank was accredited by the National Sustainable Development Act Association.

TDB has launched a two-year program to strengthen the legal environment for sustainable finance and to build the capacity of banks, financial institutions, non-bank financial institutions and the public. Furthermore, TDB has laid the foundation for cooperation with multilateral development banks (MDBs) and international development financial institutions (ILO) since 2020 to guide Mongolian businesses to a greener future. As the first member bank to join the Mongolian Renewable Energy Industry Association, it has been actively cooperating with the association to explore green energy projects and opportunities for their implementation.

GLOBALLY **RECOGNIZED BANK**

The 100 Next Global Companies 2020

Global Banking and Finance Review

The Best Corporate Bank in Mongolia

Asiamoney

Best Private Bank

Asiamoney

CORPORATE SOCIAL RESPONSIBILITY

Leading the way in protecting every child from the effects of the global pandemic

The World Health Organization (WHO) has identified the highest risk groups for the COVID-19 pandemic as low-income people, including children. The study focuses on children's health, nutrition and children's education, and calls on the world to unite and work together.

Under the Boundless Dreams project, initiated and implemented by the Trade and Development Bank of Mongolia (TDB), we donated health and prevention packages to 10,000 high risk children. We Co-organized the delivery to every family and child with World Vision International.

In doing so, we purchased the products from small and medium-sized local producers whose business incomes were declining due to the pandemic. These include clean cotton masks, hand sanitizers, immune-boosting vitamins and beverages.

The Trade and Development Bank also donated to the Ministry of Health with essential medical equipment to fight against the pandemic as well as, to the people of China, which has been hit hard by the early stages of the pandemic.

"Boundless Dreams" project continued to renovate and enrich the libraries of secondary schools.

One of the main directions of the project, the renovation and enrichment of school libraries, was delayed in 2020 due to the pandemic and was only implemented in 5 schools. As a result, 8,700 students, more than 500 teachers and educators have been added to the Boundless Dreams project. We, also collaborated with "Deeltei Uvuu", a elderly gentleman who sells books in the corner of the Central Post Office. For the past 30 years, he has been selling rare books with meaningful and eloquent words to children and young people, and has dedicated his life to spreading the value and culture of books. Within the framework of the project, N.Baasandorj gives a lecture to the children and youth of secondary schools on the benefits and value of friendship with books and leaves a valuable teaching like gold to future generations.

The bookshelf, which has the same shape as the map of Mongolia, symbolizes "educating and preparing Mongolian children with intelligence, clarity, knowledge and education", but also attracts the attention of students and is a beautiful work that catches the eye. The library of the "Boundless Dreams" project, which is in its third year, has made a real contribution to the education of about 150,000 children and youth and about 4,500 teachers in 44 schools in Ulaanbaatar and the local area. In addition, N.Baasandorj, "Deeltei Uvuu", the well-known bookseller in Ulaanbaatar, was involved in the project.

We are contributing to building a football stadium that meets international standards.

The support of companies and the participation of loyal fans are the most important factors in the success of any sport. In recent years, the development of team sports in our country, especially football, has accelerated, and the rankings of our team have been improving year by year. At this time, we have provided MNT 500 million in sponsorship and support to the Mongolian Football Association to give a big boost to the further development and success of football in Mongolia. This will create an international standard football stadium in Yarmag, support the national team, and host many national football competitions from 2021 onwards. Seventy percent of the sponsorship will be spent on the construction of the stadium, and the remaining 30 percent will be spent on training for the national team and clothing for international competitions. The stadium in Yarmag is the largest (73x115 meters) football field in Mongolia, built according to FIFA standards.

HUMAN RESOURCE MANAGEMENT

Throughout 2020, we have focused on building a team of talented and qualified staff, increasing productivity, and increasing employee satisfaction, with the goals of becoming a customer-centric bank, a platform bank, and an international bank. We also outlined the long-term human resource strategy, goals and objectives related to the new strategy.

In the reporting year, with the consolidation with Ulaanbaatar City Bank, an influential bank with a 21-year history, our workforce was expanded to with more than 480 skilled and experienced professionals.

To ensure the continuous and efficient career development of its employees, TDB implemented a gender equality policy and ensured a balanced gender ratio in the promotion and appointment of employees in vertical and horizontal positions.

A memorandum of understanding was signed with the IFE in 2020 to prepare future bankers to work in the banking sector and provide them with reliable jobs. As a result, our two organizations, which are recognized as pioneers and one of the leaders in their field, have agreed to exchange experiences and work together for a long time to support social and financial education to increase student education and employment.

Training and development

- About 80 percent of all employees were provided with soft loans as part of a policy to ensure stable, productive and diligent work, improve living conditions, and support employees' social issues.
- In 2020, due to the global pandemic, we have started the digitalization of training activities. About 4,000 employees were trained during the reporting period.
- Researched and prepared information on online training platforms and implemented the DIGITAL LEARNING ONLINE TRAINING program in order to provide all employees with world-class knowledge, specialization, to introduce the latest news and information in their work methods, and to develop and advance as a team.
- For the first time, the "Mentor Program" project was organized to build the capacity of young leaders, increase and develop their personal and professional skills with the help of bankers who disseminate banking culture and specialized bankers. As a result of this project, each employee's desire to learn and develop, and has contribution of good things in their work and in society has been increased.
- In order to help employees spend their free time properly, the "Good readers" book club was established, and an electronic library was created on the internal website, so that every employee could keep a diary of the books they read.

Development

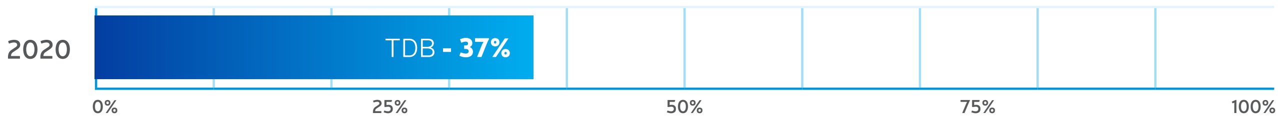
- Changed more than 250 policies and guidelines of the Bank, and implemented in stages in cooperation with departments.
- Prepared for the development of an optimal salary system to address the social issues, to ensure the stable employment of each employee in connection with the new strategy and structure.
- In the first half of the year, employee satisfaction surveys showed a positive increase of 4 points from the 2018 survey. The eNPS or Employer's brand net promotes score is GOOD, indicating that employees are willing to work for the bank for a long time to come.
- Additional monthly salaries have been created to address the health, development, social issues and lifestyle of our employees, which has a positive impact on their activity, satisfaction and productivity.
- A health video database was created and developed to support employees' health and provide knowledge and information.

02 BUSINESS OPERATIONS

CORPORATE BANKING

In 2020, we provided loans, deposits, trade finance and payment products and services to more than 1,700 large enterprises, groups and companies in the mining, agriculture, manufacturing, trade and service sectors, which will be the driving force of the economy. We offered mutually beneficial cooperation to support our customers' business. By maintaining our leading position in the market in 2020, the bank's large, small and medium businesses segment loan portfolio reached MNT 3.0 trillion, accounting for 37% of the total corporate market.

Total outstanding corporate loans of banking system MNT 8.2 trillion



Last year, the bank participated in the following programs to provide low-cost, long-term financing, reduce the financial costs of its customers, increase its solvency, and ensure the financial stability of its customers. These include:

- The Government of Mongolia approved the "Gold-2" national program by Resolution No. 20 of January 18, 2017, and the bank financed 54% of the total number of customers involved in the program.
- Within the framework of the action plan to implement the Government Resolution No. 19 of 2020 on some measures to prepare for the winter and spring of 2020-2021 in the agricultural sector, 40.1 billion MNT was provided to meat suppliers.
- Within the framework of the Law on Prevention and Control of Coronavirus Infection (Covid-19) and Reducing Social and Economic Impacts, Government Resolution No. 180 selected as the bank to finance prevention of food shortages and the creation of security reserves through food wheat importing companies.
- Resolution No. 5 of the Bank of Mongolia dated September 14, 2020 and Resolution No. 6 of November 23, 2020 introduced long-term financing to support non-mining exports.
- Successfully continuing project loans of The Government of Mongolia, the Bank of Mongolia, and the Development Bank's Export Promotion and Import Substitution Industry Support Project, the Small and Medium Enterprise Development Fund loan program, and the Asian Development Bank's concessional loan program for agriculture, additional funding for rural development projects, Job creation project by Germany's KFW bank, and JICA's soft loan project from the Government of Japan. This indicates that the bank is consistently working to improve and meet its prudential ratios and the requirements of international organizations.

We offer our customers products that can be opened in all currencies, foreign and domestic transactions and swift transfers, interest-bearing term deposit products with time and currency options, and competitive interest rates. At the end of the reporting year, current account deposits reached MNT 1.2 trillion, of which time deposits accounted for MNT 491.2 billion, or 31% of the bank system's time deposits.

2020

Corporate current and savings account portfolio MNT 1.2 trillion

Time deposit	Current and savings account
Market share 31%	

Despite a declining Mongolia's foreign trade and imports, the total number of domestic guarantees reached to 10,000, and we worked on 35 percent of bid guarantees announced by the Ulaanbaatar Procurement Agency.

As part of the digitalization of products and services, we have been successfully providing information and advice to our customers on how to get online line-loans and statements through online without the involvement of employees. In addition, introduced TDB Online to most of customers during the lockdowns.

On becoming a customer-centric bank, we have shifted to a new structure, developed a product tailored to the customer's needs, analyzed and monitored customer requests quickly, received feedback, complaints and requests from customers, and established a sales channel to ensure sustainable cooperation. By doing so, the bank intends to deepen further cooperation by offering a set of products tailored to the needs of customers, types of businesses and industries in which they operate, and by resolving all financial and business issues quickly.

SMALL AND MEDIUM BUSINESS BANKING

The Trade and Development Bank has been consistently supporting wealth-creating small and medium-sized businesses, which are the backbone of the country's economy, and has provided fast and risk-free financial products and services to meet their needs. In 2020, the bank delivered its products and services to its 60,000 small and medium business customers through 97 branches, settlement centers, online channels, and specialized relationship managers and loan officers.

In 2020, the Bank in line with international standards, defined its segment products, services, channels and pricing policies, and restructured itself with the goal of becoming a "Customer-Centered Bank".

The global pandemic has put the economy in a difficult position, with businesses facing major challenges. We supported our SMB customers whose operations were suspended, interrupted, or in financial difficulties, by changing the terms of borrowers' loans (interest and principal exemptions, extensions, fees, etc.). During the reporting period, the Bank maintained its position as a supporter of small and medium businesses, leading domestic and foreign projects and programs, and working closely with the following organizations.

- We continue to work as an implementing agency for a two-step loan project of JICA, a loan project of KFW Bank of Germany, a loan project financed by LGF and the Asian Development Bank.
- The United States Agency for International Development (USAID) funded the "Sustainable Business Development and Transparency (BEST)" program in partnership with Development Solutions.

Key indicators for 2020

As of December 31, 2020, the total outstanding loans issued by the bank to small and medium businesses is MNT **398.7** billion.

Outstanding loans /by product/

Business loan
237,439.4 million /MNT/

Mortgage loan
84,734.4 million /MNT/

Project loan
68,170.4 million /MNT/

Other
8,410.1 million /MNT/

Revenue

Interest revenue
108,551.4 million /MNT/

Non-interest revenue
3,325.5 million /MNT/

In 2021, the Bank will implement the following strategic objectives to support small and medium businesses.

- To be the bank with the widest and most diverse partnership for small and medium businesses to start, expand and empower their businesses;
- To be a leading bank supporting small and medium businesses that are environmentally and socially friendly;
- Implement a comprehensive program to support local entrepreneurs;

RETAIL BANKING

Improving the quality and efficiency of banking products and services for customers in the retail banking sector, delivering highly competitive products and services to customers through the branches and online channels to meet the needs of customers, and aim to increase the range of products available remotely as part of the digital strategy by 2020. worked.

Assets

Launched “Mongolia with Savings” campaign to introduce benefits of savings to customers and increase financial literacy. Saving and increasing your savings on a regular basis depends more on your level of financial education than your income. According to the report of the National Statistics Office, 76% of all households in our country do not have savings. With “Mongolia with Savings” campaign, the bank organized series of activities such as teaching children how to deal with money properly, making the general public understand the importance of savings, and leading them to easy ways to save. We also paid more attention to the competitiveness of our products and services for our customers, and launched a feature of opening all types of savings accounts through online channels, increasing accessibility, and providing more satisfactory services.

Loans

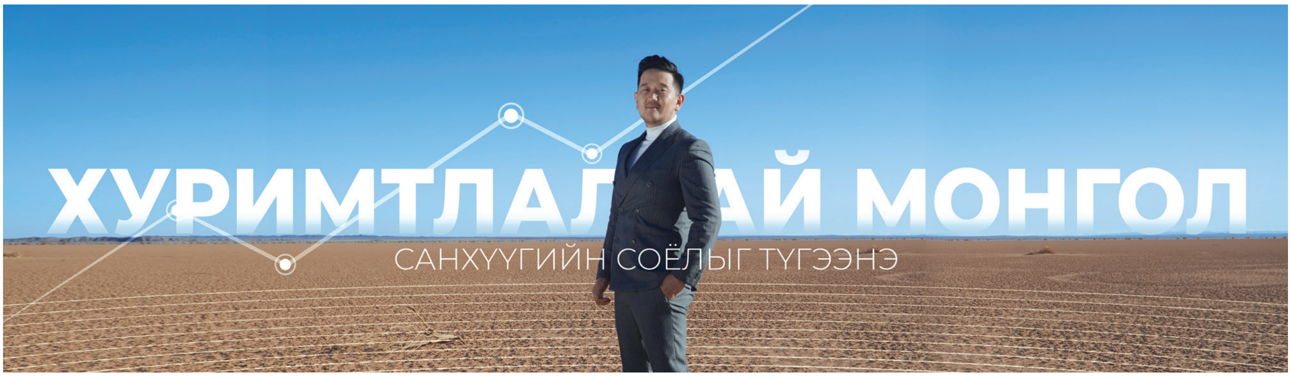
We strive to deliver loan products and services to our customers quickly and easily, reducing paperwork, introducing innovative products and services based on advanced technology, delivering loan services remotely, and improving loan conditions.

HIGHLIGHTS AND ACHIEVEMENTS OF 2020

"Mongolia with Savings" campaign launched

We launched the "Mongolia with Savings" campaign to mark the 30th anniversary of our Bank as well as and the World Savings Day to increase financial literacy. An important factor in determining a country's economic immunity is the total savings of its citizens. Western countries such as Switzerland, Sweden and Germany lead the world in savings, with more than 95% of their citizens saving and keeping 8-10% of their total income stable. Not only in the West, but in all countries with rapid economic development, special attention is paid to improving the financial literacy of citizens and understanding the importance of savings. A clear example of this is World Savings Day, which is celebrated around the world every year on October 31. The Bank of Mongolia, the Mongolian Banking Association, the International Cooperation Fund of the German Savings Bank and commercial banks jointly celebrated World Savings Day in October 2020 for the ninth year in a row. The Trade and Development Bank of Mongolia (TDB) gave the first 100 customers who attended the opening ceremony with a gift and a voucher to open a 20,000 MNT Maamuu children's savings account and introduced Easy saving products. Also, a lecture on "Today's Savings-Tomorrow's Future" was organized for primary school students. This year 1,000 students in 25 schools attended the lecture and received an understanding of the value of money, why money is needed, why it is important to save money and spend it efficiently, and the importance of saving in the future.

Saving and increasing your savings on a regular basis depends more on your level of financial education than your income. According to the report of the National Statistics Office, 76% of all households in our country do not have savings. "Mongolia with Savings" campaign is planning to carry out a series of activities such as teaching children how to deal with money properly, making the general public understand the importance of saving, and leading them to an easy way to save. As part of the campaign, we launched an EASY SAVING service that allows our customers to increase their savings without financial pressure. The service is a product with easy options to automatically transfer a certain amount of money to your savings account every time you withdraw money from your account or increase your income. We collaborated with lecturer author of book "Savings start with hunger" Mungun.G on series of lectures of "Our financial thinking" for the employees of our partners. During the lecture, attendees learned how to effectively manage their personal and family finances, registered in the bank's new "Easy Savings" service and learned how to easily increase their savings. In 2021, we will expand the utilization of technology in our operations by cooperating with Fintech companies to improve the products and services within the bank's strategic goals. The aim is to increase the delivery capacity and fully introduce technological advances in banking insurance brokerage services.



"Let's cheer from our hearts" campaign is successfully continuing

To celebrate the 30th anniversary of our bank, we have announced a "Let's cheer from our hearts" promotion campaign to show the Tokyo 2020 Olympic Games, a symbol of human solidarity, to 30 customers. Due to the global pandemic, the Olympic Games will be held in the summer of 2021, so we have decided to extend the campaign and select the winners in stages. On October 9, 2020, the winners of the first batch of 3 pairs as well as 6 other winners of rewards were publicly announced.

Introduced a new green loan product

Introduced environmentally and socially friendly "Green Loan" products. This marked the beginning of loan financing for environmentally friendly and standardized products to reduce air and soil pollution in Mongolia.

Introduced a new version of online consumer leasing Shoppy, which meet the requirement of the customers and saves customers' time. For the first time in Mongolia, an online consumer leasing service up to 10 million MNT with a term of up to 30 months has been introduced through online shopping websites such as shoppy.mn ITStore.mn and next.mn. As a result, customers can choose from the products sold on the websites of the vendors cooperating with the bank, regardless of whether they are customers of the Trade and Development Bank, and buy the goods without paying a down payment.

We support our customers during difficult financial times

Due to the spread of coronavirus disease (COVID-19) around the world, the bank has postponed interest rates and principal payments to help customers cope with the financial crisis.

Sent online gifts to Maamuu Children's Saving account customers

Every year we organized "Maamuu Children's Festival" and "Junior customer" events. However this year due to the pandemics, we've sent online gifts to our customers. The event was organized in cooperation with "Shoppy" LLC.

We have strengthened our leading position in the insurance brokerage industry

In our insurance brokerage services, we empathize on fully protecting the interests of our customers and receiving insurance indemnity in accordance with the contract. In the reporting year, a total of 2.89 billion MNT was paid to customers and policyholders. In addition, the main goal of the brokerage service is to balance the interests of the parties. We have collected MNT 4.39 billion in premium income from our partner insurance companies and have successfully led the banking insurance brokerage industry.

Branch availability

We have relocated our Peace, Zaisan and Shangri-La branches to provide our customers with products and services that meet international standards in a comfortable and convenient environment. Improved and redecorated the external and internal environment of the branches. To be closer to our customers in 2021 and to improve the availability of branches, the renovation work started in 2020 and opened the following new branches.

- New airport branch at the new International Airport
- Max Mall branch at Max Mall Shopping Center
- Park-Od branch at Park-Od Shopping Center
- Misheel branch at Misheel Walking Street, Misheel Furniture Department Store

For the 30th Anniversary of the Bank we have made a major expansion in our structure and merged with the 21-year-old Ulaanbaatar City Bank. As a result of the merger, the Trade and Development Bank has expanded to 33 branches and settlement centers, with a total of 98 branches, settlement centers and cash registers, bringing our services closer to our customers.

Digital transformation

The Trade and Development Bank of Mongolia (TDB) is a leading bank in the banking and financial sector of Mongolia in the field of digital transformation. During this reporting year, we have updated our technology and platform to make banking services easier and more secure in a way that is more consistent, accessible and tailored to the needs of each customer, creating a technology and innovation base for the bank to operate more efficiently in the future.

As part of our strategic goal, we increased the infrastructure and software capacity of the banking system, created a comprehensive platform that gradually introduces advanced technologies or integrates interconnected software and systems. This will help us deliver high-capacity services and increase the number of new online services available to customers at any time, regardless of the bank's working hours or distance.

In addition to digitizing banking products and services, we have focused on simplifying the operations, finance, accounting and processes of our customers. We are working together with a major commonly used ERP system developers on integration of Corporate Gateway system to increase connectivity possibilities.

During the reporting period, 745,701 customers registered to online products and services, covering more than 90 percent of the bank's total active customers. As of 2020, 95% of all bank transactions were made online or without the involvement of bank employees. This shows that customers are choosing more online services.

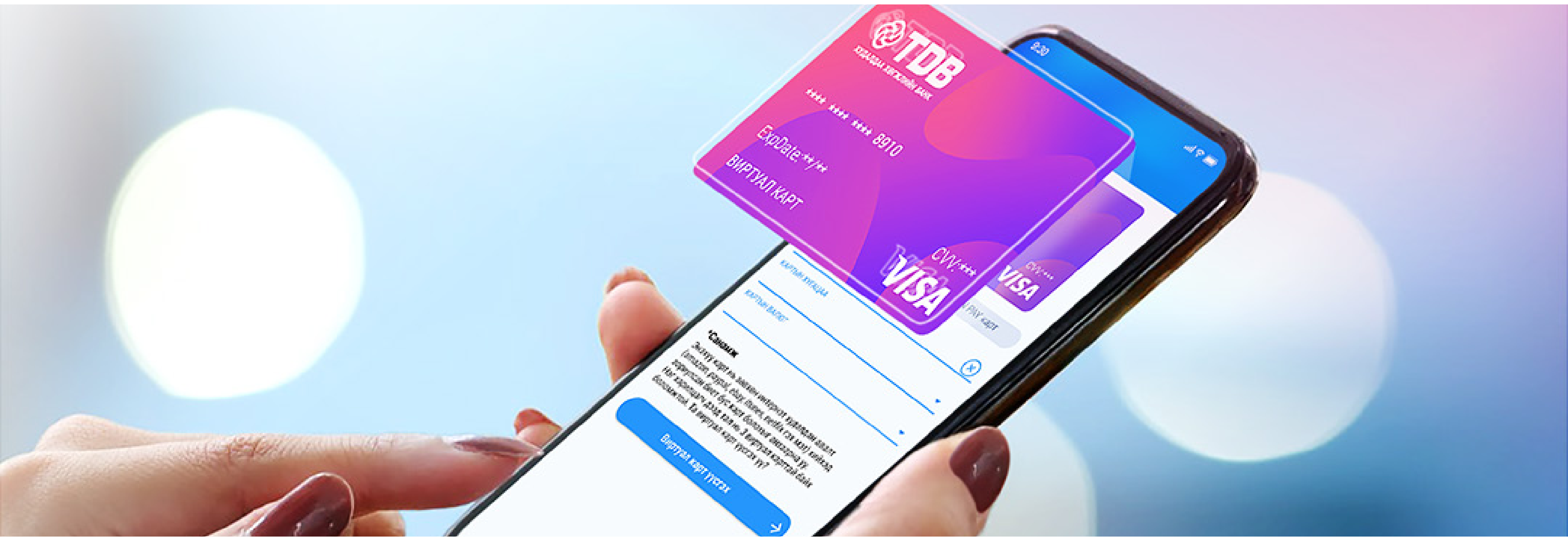
Cash and non-cash transactions in the bank branches **5%**

Transactions made by POS highest ever **59%**

ATM Transfer **5%**

Cards, internet banking and other online services **90%**

TDB Online Banking Transactions **31%**



TDB Online – Online banking service

Compared to the previous year, the number of TDB Online users increased by 33 percent, and the number of transactions through the bank's online channel increased by 59 percent. TDB Online upgraded to provide the three pillars of financial service, Banking, Insurance, and Securities. We continue to make it easier, develop a variety of banking products and services, and deliver them to our customers.

In the reporting year, TDB Online service was updated, and the following features were added:

- Increased customer usage,
- Allows customers to easily access banking products and services online,
- Reduced operating costs,
- Redesigned UX of TDB Online service to make it easy, fast and clear.

The following services have also been introduced.

- TDBPay e-wallet,
- Virtual card,
- Payment card orders,
- Obtain card PIN code, removal of block,
- Ability to read QR codes to withdraw cash from ATMs,
- Easy savings service.

In 2020, we connected banking services to 110 service providers and brought banking and payment services to allow them to be closer to their customers. We also connected to e-commerce sites www.shoppy.mn and entertainment ticketing sites www.zero.mn in order to receive the services of other cooperating organizations through the banking application and to meet the needs of customers other than just banking and financial needs. The products and services of these organizations have been introduced using the bank's TDB Online service.

Also this year, a development was made to link customer scheduled payments to mobile phone calendars. This allows customers to view and monitor their scheduled payment information in a timely manner. Customers can register all their bank cards in TDBPay wallet and make payments quickly. Also, Introduced QR cash service to withdraw money from any account without using an ATM card using TDB Online service application. Corporate Gateway, which aims to simplify and automate operational processes through inter-system integration, has added 28 co-developers this year. This service automates the manual operations of the customer organization by connecting all banking services through the API system. This is the next step in digital banking, which has become a business accelerator by reducing the number of steps, facilitating time and cost savings.

To fully cover all parts of transactions made at ATMs with cash receipts and disbursements, it has been made possible to write transaction values in transfer transactions. In addition, we have increased the choice of Russian language in all ATMs and created favorable conditions for foreign customers to use ATMs. We have been successfully introducing card less and contactless card support services at ATMs and improving the quality requirements. Added SMS feature to get 24-hour ATM and Deposit ATM information. We successfully completed the merger with Ulaanbaatar City Bank and increased number of ATMs, increasing accessibility and availability, in a short period of time without any difficulties for customers. During the quarantine period, the bank's ATM service took measures to protect the customers by putting social distancing signage, warnings on the ATM screens, installing hand sanitizers, and disinfection by a professional organization. We are also actively participated in the public awareness campaign initiated by the Mongolian Banking Association to raise awareness against online scams. We've successfully met the requirements of PCI DSS, the international standard for payment card information security, for all ATMs.

Card and payment services

In 2020, we focused on introducing a wide range of new and easy products and services, based on the needs of our customers and the market, following international trends. These products saves time, reducing the time needed to come to the branch in person and give advanced technological solutions.
In the reporting year, the number of payment card users increased by 11% compared to 2019, and the Bank's Visa card transactions accounted for more than 40% of Mongolia's Visa card transactions abroad, making it the largest and most reliable card system in Mongolia.

Card product development

In accordance with the "PCI DSS" or international standard for payment card information security, the PIN code of the customer's card is sent remotely to the mobile phone registered via TDB Online and 1900-1977 call center channels.

To provide customers with fast banking services and save time, TDB Online service allows you to order and deliver the card to the desired place, additional card services, card management and introduced Virtual card for online purchases.

Due to global pandemic, we introduced the feature to order payment cards without having to come to the branch, opening a new account and ordering cards through the bank's 24/7 call center 1900-1977.

Promotional campaign for customers

TDB is the only bank that has been implementing a promotional campaign, collaborated card designs with partners for the 16 years. The main goal of the promotion campaign is to give information on the proper use of banking products and services to all our customers, to create opportunities for them to enjoy discounts and promotions on the best term. In 2020, we organized card promotions and various campaigns to satisfy our customers.

Within the framework of the "Let's cheer from our hearts campaign" and the Visa Incentive Agreement, the Team Visa program was the first of its kind in Mongolia to recruit athletes and work with them as its face. For the 30th anniversary of the bank, we're sending 15 customers with their loved ones to The Tokyo 2020 Olympic Games. In addition, 70 customers who made online purchases were rewarded for their international and domestic online purchases under the "With Visa" promotion program. A total of 17,000 customers participated in the promotion period, and 70 lucky customers received a vouchers, while the top 10 customers received the prepaid Olympic VISA Gold Card. The traditional promotion campaign with Unionpay 10% cashback of the purchase also organized.

Customers can get a 5-10% refund by purchasing TDB's credit card and joint payment card on a POS device when making purchases from major service areas cooperating with TDB.

We provided a percentage refund to our customers when they buy a smartphone with a bank payment card.

POS service upgrade

To provide customers with fast banking services and resolve requests in a timely manner, we are receiving POS installation requests through online and can connect up to four merchants at one POS. During the reporting period, the number of POS terminals increased by 32% compared to 2019 due to the merger with UBCB.

Security of payment card information

TDB has fully complied with the “PCI DSS” international standard for payment card information security for the third year in a row and has received approval for the updated version 3.2.1 of the standard. For the third year in a row, TDB has been certified by the Qualified Security Assessor (QSA) ControlCase in Mongolia, which is recognized by the International PCI Security Standards Council. This standard was first adopted in September 2006 by five of the world’s leading payment card service providers with the primary goal of ensuring, protecting and improving the security of cardholder information.

INTERNATIONAL BANKING AND FOREIGN RELATIONS

During the year with pandemic-related lockdowns, we provided our customers with unimpeded access to banking products and services, as well as the necessary guidance and advice.

Highlights and achievements of 2020 include:

- Due to new structure of the bank, to attract foreign funds we conducted researches and started cooperation with a total of 109 banks and financial institutions.
- Signed a USD and RMB financing agreement with the Development Bank of China to finance imports from China and projects under the "Belt and Road" initiative. As a result, TDB's customers will be able to finance their trade with Chinese companies at a lower cost.
- The first document trade financing (non-refundable payment obligation) was successfully completed in cooperation with the International Bank for Economic Cooperation (IBEC). Under this financing, a foreign trade agreement was signed for the supply of special construction and handling equipment (portable cranes) to Mongolia, under which IBEC undertook to make payments to the leading European bank. This payment instrument is characterized by offering favorable payment terms to sellers and buyers.
- € 7.2 million worth of Russian wheat exports were successfully financed in cooperation with international partner banks using IBEC's trade and export financing instruments. The bank that guaranteed and financed the letter of credit is VTB Bank (Europe), a subsidiary of VTB Group, which operates internationally.
- Successfully attracted $ 2.5 million from Credit Bank of Moscow in cooperation with the International Investment Bank (IIB) to support trade between Russia and Mongolia.
- Successfully signed a master agreement with the Credit Bank of Moscow on concessional financing of the Government of the Russian Federation. According to the agreement, TDB's customers will be able to receive preferential financing from the Russian government.

- To support trade between Taiwan and Mongolia, the trade financing line with the Export-Import Bank of Taiwan was renewed and disbursed at the request of its customers.
- Initiated cooperation with the Polish Development Bank, Gospodarstwa Krajowego (BGK), to provide TDB customers with cheaper and longer-term funding to purchase from Poland.
- Successfully attracted $ 50 million in funding from Commerzbank of Germany, a long-term business partner.
- Successfully opened a Multi-currency account at Erste Bank and Natixis Bank for smooth transfer of foreign remittances. We also successfully opened an EUR account at Bayern LB Bank and a GBP account at Kookmin Bank.
- Successfully signed an additional agreement with China Construction Bank (CCB) to fully transfer to the Cross-border Interbank Payment System (CIPS), a payment system, enabling our customers to successfully complete transnational yuan transactions.
- In April 2020, we became a national accredited entity of the Green Climate Fund and we are now eligible to access concessional financing up to $ 250 million in one-time funding for climate-related projects and programs. In October 2020, the GCF Accreditation Master Agreement was signed.
- Selected to implement the GCF Technical Assistance Project, which aims to expand sustainable and green financing in Mongolia, and to work with the ToC Association (MSFA).
- To develop sustainable finance, organized meetings and conferences and started cooperation with 56 international and domestic organizations.

The Trade and Development Bank's Representative Office in Tokyo

2020 Highlights and achievements of representative office in Tokyo:

The Trade and Development Bank's Representative Office in Tokyo continued to operate actively despite the pandemic, providing information to individuals and organizations interested in investing and doing business in Mongolia. In 2020, companies and individuals operating in the fields of information and communication, computer software, wholesale and retail became customers of the Trade and Development Bank and received financial services through its representative office in Tokyo.

The Trade and Development Bank's representative office in Tokyo has developed relationships with Japanese mega-banks, local banks, small and medium-sized financial institutions, securities companies, insurance companies and other institutional investors, laying the groundwork for further funding from the Japanese financial market. This includes crowdfunding, a new technology-based way to raise information.

In cooperation with government agencies in Niigata and Shizuoka prefectures, Japan, a trade finance seminar was organized to connect Japanese businesses with Mongolian companies. Japanese companies participating in the event have established trade and investment relations with Mongolian companies.

We have improved our e-Account service and made it possible for our customers to order international debit cards through their online banking service.

The Trade and Development Bank of Mongolia, in cooperation with NETSTARS, the official owner of WECHAT PAY service in Japan, has become the official representative of the service in Mongolia, making it possible for WECHAT PAY customers to make payments through their bank's POS terminal machine.

NOSTRO ACCOUNT

№	Currency	Country	Bank name	Location	SWIFT code
1	USD:	KR	KEB HANA BANK	SEOUL, KOREA	KOEXKRSE
2			KOOKMIN BANK	SEOUL, KOREA	CZNBKRSE
3		CN	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIANHAOTE, CHINA	ICBKCNBJNMA
5			BANK OF CHINA (HONG KONG) LIMTED	HONG KONG, CHINA	BKCHHKHH
6			BANK OF INNER MONGOLIA	HOHHOT, CHINA	HSSYCNBH001
7		RU	ZAO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRUMM
8			OJSC SBERBANK (HEAD OFFICE)	MOSCOW, RUSSIA	SABRRUMM
9			JSC RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM
10			JSC VTB Bank	MOSCOW, RUSSIA	VTBRRUMM
11			PSJC TRANSKAPITALBANK, RUSSIA	MOSCOW, RUSSIA	TJSCRUMM
12		SG	OCBC BANK	SINGAPORE	OCBCSGSG
13		DE	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
14		TH	KASIKORNBANK PUBLIC COMPANY LIMITED	BANGKOK, THAILAND	KASITHBK
15	EUR:	DE	BAYERISCHE LANDESBANK	MUENCHEN, GERMANY	BYLADEMM
16		DE	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
17	JPY:	JA	MUFG Bank, LTD	TOKYO, JAPAN	BOTKJPJT
18			MIZUHO BANK, LTD.	TOKYO, JAPAN	MHCBJPJT
19			SUMITOMO MITSUI BANKING CORPORATION	TOKYO, JAPAN	SMBCJPJT
20	GBP:	DE	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
21		KR	KOOKMIN BANK	SEOUL, KOREA	CZNBKRSE
22	CHF:	DE	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
23	AUD:	AU	AUSTRALIA NEW ZEALAND BANKING CORPORA-TION LIMITED	MELBOURNE, AUSTRALIA	ANZBAU3M
24	KRW:	KR	KEB HANA BANK	SEOUL, KOREA	KOEXKRSE
25			KOOKMIN BANK	SEOUL, KOREA	CZNBKRSE
26	CNY:	CN	AGRICULTURAL BANK OF CHINA	ERLIANHAOTE, CHINA	ABOCCNBJ050
26			CHINA CONSTRUCTION BANK CORPORATION	ERLIANHAOTE, CHINA	PCBCCNBJNME
28			INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIAN, CHINA	ICBKCNBJNMA
30			SHANGHAI PUDONG DEVELOPMENT BANK	SHANGHAI, CHINA	SPDBCNSH
31			BANK OF CHINA (HONG KONG) LIMTED	HONG KONG, CHINA	BKCHHKHH
32			BANK OF CHINA INNER MONGOLIA BRANCH	HOHHOT, CHINA	BKCHCNBJ880
33			BANK OF INNER MONGOLIA	HOHHOT, CHINA	HSSYCNBH001
34	CAD	CA	NATIONAL BANK OF CANADA	MONTREAL, CANADA	BNDCCAMMINT
35	RUB:	RU	ZAO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRUMM
36			SBERBANK (BAIKALSKY HEAD OFFICE)	IRKUTSK, RUSSIA	SABRRU66
37	NZD:	NZ	ANZ BANK New Zealand Limited	WELLINGTON, NEW ZEALAND	ANZBNZ22
38	HKD:	JA	MUFG Bank, LTD	HONG KONG	BOTKHKHH
39	SGD:	SG	OCBC BANK	SINGAPORE	OCBCSGSG
40	SEK:	SE	NORDEA Bank AB	STOCKHOLM, SWEDEN	NDEASESS
41	TRY:	TR	TURKIYE IS BANKASI A.S.	ISTANBUL, TURKEY	ISBKTRIS
42	THB	TH	KASIKORNBANK PUBLIC COMPANY LIMITED	BANGKOK, THAILAND	KASITHBK

CUSTOMER SERVICE

As part of its strategic goal of becoming a customer-centric bank, the Trade and Development Bank focuses on continuously improving the quality of its services, listening to the voices of its customers, and implementing it to improve its products, services, and business processes. In addition, we take all necessary measures to protect the interests of each customer, prevent any financially risky transactions, resolve any complaints, and provide financial literacy advice and information. As the result, we won 3rd place in the public awareness campaign against inline scams organized by the Bank of Mongolia, Mongolian Banking Association and General Police Department.

During the reporting period, the Contact Center, which provides services to its customers 24/7, has redefined its call center service standards and adheres to the principle of resolving any financial issues of its customers on a first-come, first-served basis. For example, we have increased the call center's customer service capacity, expanded the capacity of 20 customers to 30 calls at the same time, and reduced the average time per call to 1.49 minutes.

In addition, the use of Amazon Web services Face recognition technology, an advanced solution to verify customer visibility during calls, has become the basis for remote customer identification, increasing the number of services provided, and increasing access to after-sales products and services.

Due to the Covid-19 pandemic, the number of callers to the contact center increased by 52.8% and in 2020 received a total of 720,000 calls. In addition to increasing the capacity of our contact center to meet the needs of our growing customers and provide prompt service, we have successfully launched a project to introduce the latest advanced software in our contact center.

During the reporting period, a total of 11 thousand customers were protected from financial risks equivalent to 2.3 billion MNT, and 5.5 thousand customer feedback was received and resolved promptly.

TREASURY MANAGEMENT

Gold and precious metals market

As a result of the uncertainty in the market caused by the pandemic and the tendency of investors to avoid risk, the price of gold in the world market was relatively stable and growing, and gold mining companies became more and more interested in increasing their production.

In the reporting year, the amount of precious metals purchased by the Bank of Mongolia reached 23.6 tons, an increase of 8.3 tons from the previous year, and reached the highest level in history. To increase participation of the Gold-2 program, the Bank of Mongolia actively part took part in the program to finance advance payment or working capital and long-term or investment financing of gold mining companies through commercial banks and provided the most valuable financing to gold mining customers and we successfully completed our roles in its down payment financing obligations on time.

Foreign exchange market

As a leading bank in the domestic foreign exchange market, the Bank is responsible for meeting the foreign exchange needs of all major organizations, businesses, individuals, and businesses operating in Mongolia. In the reporting year, the bank's foreign exchange turnover increased, and the number of customers and clients conducting foreign exchange transactions through the bank increased following of the merger with the systemically influential Ulaanbaatar City Bank. In 2020, the country's foreign trade turnover declined due to the quarantine caused by the COVID-19 pandemic. With the advancement of technology and internet banking services, we have been able to deliver foreign exchange transactions remotely or electronically and continuously meet the needs of our customers.

Money market

In 2020, the bank consistently met the required reserves and liquidity requirements set by the Bank of Mongolia and maintain its leading position in the domestic money market. In addition to trading in domestic and foreign securities with its free resources, TDB has been active in securities brokerage with other domestic banks and financial institutions, acting as a financial intermediary not only for individuals and businesses, but also for other banks and financial institutions. In addition, it actively traded government bonds issued on the international market as part of foreign exchange reserve management.

Assets and Liabilities Management

TIn the reporting year, the Bank's total assets increased by 9.6 percent, net loan by 15.4 percent, and customer deposits by 39.5 percent after the merger with Ulaanbaatar City Bank as a result of the Bank's efforts to improve asset quality and maintain a sound balance sheet. The Bank successfully repaid USD 500.0 million of Mongolian government-guaranteed bonds issued in the international market with accumulated coupons after May 2020, and even after the bonds were repaid, the bank's liquidity ratio exceeded the requirements of the regulatory body. The Bank has implemented a comprehensive management and control of the Bank's assets and liabilities using an internationally used analytical model that integrates the Bank's international capital adequacy, asset quality, liquidity, current interest rate sensitivity and future outlook. In addition, the principle of rational balance sheet allocation was used to improve the bank's risk tolerance and increase profitability.

Custodian service

The types and amounts of securities and assets deposited by the bank's custodian customers in the domestic and international markets have increased, and the bank has launched a unified service of registration, storage and settlement of securities traded on the OTC market, contributing to the development of the domestic securities market. In connection with the approval of the "Regulation on OTC Market Operations" by the Financial Regulatory Commission, it has started working with market participants to provide customers with trading and settlement services of over-the-counter securities in accordance with international standards. Within the framework of securities payment clearing service, the Bank successfully introduced T + 2 post-settlement procedure and anti-payment supply principle and cooperated with relevant infrastructure organizations.

RISK MANAGEMENT

The Trade and Development Bank follows good corporate governance (ERM). ERM enables continuous monitoring and improvement of the risk environment and supports activities such as risk awareness, knowledge, reliability, and strategic decision making. The Bank's shareholders' meeting makes the bank's strategic decisions, and based on this strategy, the Board of Directors is the highest unit responsible for implementing the bank's risk governance. The Bank's Board of Directors approves risk policy documents such as sound risk management and risk appetite (maximum acceptable risk). The Deputy Chief Executive Officer for Risk is responsible for day to day risk management, and reports to Board of Directors and Risk management committee. The Deputy Chief Executive Officer for Risk is responsible for risk management, which is the second stage of risk protection, and includes following departments and units:

Risk Management Policy and Validation Department;

- Risk Management Policy and Coordination Department;
- Credit Underwriting Department;
- Market and Liquidity Risk Management Unit;
- Operational Risk Management Department;
- Digital Risk Management Unit;
- Compliance Unit.

The Deputy Chief Executive Officer of the Risk serves as a veto member of the Credit Committee, the Credit Subcommittee, and the Assets and Liabilities Committees, and the Chair of the Tender Committee and the Non-performing Assets Committee.
These units, which are the second stage of risk protection, are responsible for the bank's risk management measures, such as daily risk monitoring, risk identification, risk assessment, and reporting on the implementation of limits. reporting), risk mitigation, and risk management improvement. The first stage of risk protection, business units, implement risk management within the scope of their authority, while the third stage is the role of the Internal Audit Unit.

Within the framework of continuous improvement of the risk management system, the bank's activities are in line with the risk management standards and recommendations issued by international and domestic regulators. In this regard, the following activities were carried out in the reporting year.

- Redefined and implemented the changes in the risk appetite (maximum acceptable risk of the bank) to be followed in the bank's risk management activities, which is a key component of Basel II in Group II (Pillar 2), and the restrictions on a wider range of key international risks based on advanced international methods and techniques.
- Due to Bank's restructure, the "Risk Management Department" was renamed the "Risk Management Policy and Coordination Department" a separate unit from other day-to-day risk activities responsible for risk policy, rules and methodologies.
- As part of the restructuring, a new digital risk management department was established. The department specializes in information technology risk and online product and service risk management.

Operational risk management

The Bank is constantly improving its tools to effectively manage operational risks, including external risks, software and system failures, and any risks arising from internal operations.

In connection with the introduction of the Risk and Supervision Self-Assessment Methodology, which is an integral part of the Bank's operational risk management, we have developed and implemented a comprehensive software to ensure the coordination of departments and to obtain one-stop reports. As a result, it is possible to prevent risks by detecting risk situations in advance and reporting them to the required units, and all bank units are cooperating effectively on this principle.

We also develop risk management methodologies for project operations in accordance with international standards, and support the successful implementation of large banking business projects, the early identification and management of potential risks.

Last year, in collaboration with the international audit firm PWC, we developed a bank risk appetite declaration and defined the methodology for calculating operational risk appetite in quantitative and qualitative terms.

TDB is doing a extensive work to become a digital bank, one of which is to establish an digital risk management unit under the Operational Risk Management Department. The digital risk management unit is responsible for developing and monitoring the implementation of banking information technology, information security, electronic products and services, and payment risk management methods.

In order to ensure the security of digital payment systems, we have been conducting regular tests to assess the risks of information technology and information security, and to identify their vulnerabilities, in order to implement the requirements of the International Payment Card Industry Data Security Standard. As a result, we met the certification requirements in 2020, making us the bank to meet the standard for the fourth year in a row.

Credit risk management

In the reporting year, the Bank established the relevant loan classification and contingency fund in accordance with the "Procedure for classification of assets, establishment and disbursement of asset risk fund" approved by the Bank of Mongolia and fully met the prudential ratios set by the Bank of Mongolia.

In addition to risk management in line with the credit risk target appetite, the Bank has implemented policies aimed at improving the quality of the loan portfolio and ensuring the Bank's short-term and long-term stability.

The Credit Risk Department implements the risk management standards and recommendations issued by international and domestic regulators in line with the Bank's activities in order to develop a credit risk management system. Within this framework, the following activities were implemented. These include:

- Developed methodologies and guidelines for credit risk assessment and credit impairment related to the introduction of International Financial Reporting Standards (IFRS9).
- The Credit rating / Credit Scoring model based on the bank's historical data is ready to be implemented based on Machine learning algorithms or statistical modeling. This makes it possible to speed up and streamline the loan research and settlement process and offer loan terms that are tailored to the customer's behavior.

Particular attention was paid to improving collateral policies, procedures, and valuation methods, and introducing international standards for collateral valuation. As part of this work, M.A.D Urban received a consulting service from a team of qualified asset appraisers registered with the Royal Institute of Chartered Surveyors (RICS) in the field of asset valuation to bring its valuation in line with International Valuation Standards (IVS). As a result, the bank's collateral valuation methodology, asset valuation report, bank collateral policy, and collateral valuation procedures have been revised in accordance with IAS and are used in day-to-day asset valuation activities.

Market risk management

The Market and Liquidity Risk Management Department studies, develops and introduces methods and models for assessing the Bank's key risks, prepares reports on the Bank's potential risks, and conducts extensive market and domestic market research. The environment determines the impact on other activities and provides information to the bank's management from time to time. These include:

- Conducts research and forecasts in key sectors of the economy, and regularly submits risk analysis to decision-making units.
- The bank's liquidity risk is measured and reported on a weekly basis using the cash flow behavioral GAP report, Basel LCR, NSFR ratios, and concentration indicators, and provides timely recommendations.
- The Bank's market risk is measured and managed on a daily basis using the Value at Risk method.
- Interest rate risk (IRRBB) is measured and reported on a monthly basis based on the bank's Duration gap calculation.
- Settlement and pre-settlement limits are determined based on the credit rating of each client and the country's risk, and in the absence of a credit rating, based on an internally developed model.

Environmental and social risk management

As the leading commercial bank in Mongolia, we aim to be an example to other banks, share its experience and be environmentally and socially friendly.

The Bank, through environmental and social risk management, finances to its customers and identifies and assesses the potential environmental and social risks of its customers in the same way as the credit risk assessment and mitigation process, and protects the customers from financial risks. In implementing the Sustainable Finance (SF) program, we have focused on training all bank employees, including loan officers, and training credit risk analysts to implement the principles of sustainable financing at all stages of operations. As a result, a total of 168 employees were trained in environmental and social risk management systems in duplicate by 2020.

TDB issued a total of 1,093 green loans in the reporting year in the categories of air pollution reduction, renewable energy, eco-cars, water and energy saving, and waste reduction, and plans to further support green loan product development and green loan growth.

INFORMATION TECHNOLOGY

TDB's information technology operations are based on advanced information technology, tools and software that meet international standards, with a focus on ensuring the continuity and reliability of the bank's operations, improving staff productivity, and delivering products and services that meet customer needs.

In the reporting year, we implemented software and technology projects to meet the requirements of international and correspondent banks and regulators, introduce advanced technologies, improve internal operations, bring banking services closer to customers, give required information through online, and make payments easier.

These include:

Successfully integrated The Trade and Development Bank and the Ulaanbaatar City Bank's banking systems, software and information technology infrastructure in a short period of time with ease.

Conducted an IT audit based on the COBIT5 international IT governance system and met regulatory requirements.

The introduction of Dell IDPA technology solution at the Bank's main data center allows to prevent the risks of backing up database systems, to create a reliable backup of data, to reduce the time spent on backups by 8 times, the time spent on our recovery operations by 2 times, and the storage by 5 times. Dell technology commends the successful implementation of this technology solution, highlighting our bank's best practices at *www.delltechnologies.com.*

The security equipment of the SWIFT international money transfer network has been completely upgraded, and the successful introduction of SWIFT Sanction screening and Name screening systems has improved the transaction control, automated the process, and met the standards and requirements set by the correspondent banks. In addition, the introduction of the Nostro Reconciliation module automates the manual transaction allocation process.

Our bank has taken the lead in converting ₮ payment cards to EMV chip technology, one of the major projects planned by the Bank of Mongolia in 2020, and has fully provided the opportunity to print and receive ₮ EMV chip cards at ATMs and POS terminals. At the same time, improvements to the Automatic Clearing House system's package transaction interface have made it possible to send refunds directly from the system, and the introduction of a Unified Account Fund has the advantage of reducing the risk of transaction failure due to recipient account name and number discrepancies.

Due to the pandemic situation, automated the process of receiving customer loan postponement requests online. And postponing the loan repayment schedule in batches at the customer's request has reduced the number of people / days spent on the work by an average of 70 times.

Customers can use the TDB Online system to get an Virtual Card in an instant and use it directly for online purchases and non-cash transactions. In the five months since the introduction of the virtual card product, more than 5,500 cards have been created and used, indicating that the product meets the needs of customers.

With the introduction of the TDB online card PIN code change system, customers can now access the service digitally without having to visit a bank branch, saving customers time, printing bank PIN codes, and wasting a paper.

Upgraded the online consumer loan service introduced in cooperation with Shoppy LLC. Introduced a solution to prove income and simplify loan research through the DAN system, any bank customer can submit a loan application for a period of 30 months and up to MNT 10 million online.

With the successful introduction of Wallet, an advanced technology of Qpay, in cooperation with KKTT LLC, customers can save their bank cards on the service application and make online purchases and payments without entering a card number anymore.

We also provided digital signature verification, contract signing, and bank verification of E-Mongolia electronic system to our customers.

In the reporting year, due to the emphasis on information system improvement and automation, online transactions increased by 16.5 percent compared to the previous year, and 95 percent of the bank's total transactions were made through online channels, an increase of 5 percent from the previous year.

03 INDEPENDENT AUDITORS REPORT

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

Audited Financial Statements
31 December 2020

Building a better
working world

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General information

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

We, Erdenebileg Doljin, being the Chairman of the Board of Directors of Trade and Development Bank of Mongolia LLC (the "Bank"), Orkhon Onon, being the Chief Executive Officer, and Enkhtuya Dulamjav, being the Chief Financial Officer, primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 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.

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

Ulaanbaatar, Mongolia

Date: 31 March 2021

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Trade and Development Bank of Mongolia LLC

Opinion

We have audited the financial statements of Trade and Development Bank of Mongolia LLC (the "Bank"), which comprise the statement of financial position as at 31 December 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

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

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
ASSETS			
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
TOTAL ASSETS		**8,116,818,030**	**7,823,697,565**
LIABILITIES			
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	–
TOTAL LIABILITIES		**7,099,306,907**	**7,119,995,170**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
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
TOTAL EQUITY		**1,017,511,123**	**703,702,395**
TOTAL LIABILITIES AND EQUITY		**8,116,818,030**	**7,823,697,565**

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)
Total comprehensive income	**–**	**–**	**(17,891,475)**	**64,374,705**	**46,483,230**
Reversal of issued shares	(5,204,875)	(191,095,152)	–	–	(196,300,027)
Additional provision related to regulatory requirements (Note 16)	–	–	–	(75,260,890)	(75,260,890)
At 31 December 2019 and 1 January 2020	**50,000,707**	**19,298,006**	**151,476,785**	**482,926,897**	**703,702,395**
Profit for the year	–	–	–	20,977,027	20,977,027
Other comprehensive income	–	–	(1,424,125)	–	(1,424,125)
Total comprehensive income	**–**	**–**	**(1,424,125)**	**20,977,027**	**19,552,902**
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
At 31 December 2020	**72,723,171**	**251,086,754**	**193,056,881**	**500,644,317**	**1,017,511,123**

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
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		24,637,436	64,374,911
Adjustments for:			
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
Operating profit before working capital changes		**353,956,874**	**387,229,727**
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
Cash generated from operations		**1,172,085,612**	**674,172,338**
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)
Net cash flows generated from operating activities		**942,159,772**	**445,795,429**

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

	Notes	2020 MNT'000	2019 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES			
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)
Net cash flows generated from investing activities		**224,591,648**	**11,453,854**
CASH FLOWS FROM FINANCING ACTIVITIES			
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)
Net cash flows used in financing activities		**(1,216,723,719)**	**(288,322,387)**
Net increase/(decrease) in cash and cash equivalents		**(49,972,299)**	**168,926,896**
Cash and cash equivalents brought forward	**35**	1,426,345,590	1,257,418,694
Cash and cash equivalents carried forward	**35**	**1,376,373,291**	**1,426,345,590**
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(483,879,585)	(514,345,092)
Interest received		542,726,441	597,185,752
NON-CASH ACTIVITIES			
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

Reconciliation of changes in liabilities arising from financing activities:

Lease liabilities	2020 MNT'000	2019 MNT'000
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)
At 31 December	**11,384,522**	**13,591,398**

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

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

	Borrowed funds MNT'000	Sub-ordinated debts funds MNT'000	Debt securities issued MNT'000
At 1 January 2019	**981,328,159**	**–**	**1,475,814,484**
New disbursement	384,317,370	150,000,224	2,400,876
Repayment	(625,683,787)	–	–
Interest repayment	(81,644,198)	–	(144,596,808)
Net (repayment)/drawdown	(323,010,615)	150,000,224	(142,195,932)
Deferral disbursement	(2,977,663)	–	–
Deferral amortisation	7,529,610	–	12,474,112
Foreign exchange movement	17,115,807	–	46,161,994
Non-cash items arising from financing activities	21,667,754	–	58,636,106
Interest expense accrued	79,305,409	45,833	144,234,052
At 31 December 2019 and 1 January 2020	**759,290,707**	**150,046,057**	**1,536,488,710**
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	(322,675,076)	(170,712,583)	(1,475,619,373)
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	10,795,426	–	34,541,473
Interest expense accrued	111,325,297	20,666,526	64,729,464
At 31 December 2020	**558,736,354**	**–**	**160,140,274**

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

1. Corporate information

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

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

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 Banks functional currency. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising from settlement or translation of monetary items are taken to the profit or loss.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

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 liked 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 draw 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:

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

[1]*Effective for annual periods beginning on or after 1 January 2021*
[2]*Effective for annual periods beginning on or after 1 January 2022*
[3]*Effective for annual periods beginning on or after 1 January 2023*
[4]*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:

	26 June 2020 MNT'000
ASSETS	
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
TOTAL ASSETS	**1,169,479,031**
LIABILITIES	
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
TOTAL LIABILITIES	**1,025,223,449**
NET ASSET	**144,255,582**

*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.

7. Interest and similar income

	2020 MNT'000	2019 MNT'000
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
	707,870,414	**701,609,264**

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

	2020 MNT'000	2019 MNT'000
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
	506,145,302	**521,699,037**

9. Net fees and commission income

	2020 MNT'000	2019 MNT'000
Fees and commission income		
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
	54,072,967	**55,442,199**
Fees and commission expenses		
Card service charges	11,667,136	12,473,227
Others	3,041,675	2,596,342
	14,708,811	**15,069,569**
Net fees and commission income	**39,364,156**	**40,372,630**

10. Other operating (expenses)/income

	2020 MNT'000	2019 MNT'000
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
	(5,672,447)	**32,067,455**

11. Credit loss expense

	2020 MNT'000	2019 MNT'000
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)
	64,675,317	**58,086,927**

12. Operating expenses

	2020 MNT'000	2019 MNT'000
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
	131,602,195	**129,888,474**

13. Income taxes

13.1 Income tax expense

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

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

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

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

	2020 MNT'000	2019 MNT'000
Profit before income tax	24,637,436	64,374,911
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	4,480,130	–
Tax expense	**3,660,409**	**206**

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

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

13. Income taxes (contd.)

13.3 Deferred tax liabilities

	2020 MNT'000	2019 MNT'000
Deferred tax liability/(asset)		
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	–
	2,155,509	**–**

Deferred tax (asset)/liability	Recognised in other comprehensive income MNT'000	Recognised in profit or loss MNT'000	Transfer from UBCB MNT'000	Total MNT'000
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
	2,313,418	**(1,921,609)**	**1,763,700**	**2,155,509**

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
	856,968,353	**1,096,100,972**

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
	570,008,607	**301,381,272**

*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).

16. Financial investments

	2020 MNT'000	2019 MNT'000
Available-for-sale investment securities		
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
Repossessed assets (f)	92,257,890	92,257,890
Allowance for repossessed assets	(92,257,890)	(92,257,890)
	876,122,705	**782,475,730**
Held-to-maturity investment securities		
Government bonds (g)	769,901,041	984,163,506
Development Bank of Mongolia bonds (h)	65,974,795	65,977,534
	835,875,836	**1,050,141,040**
	1,711,998,541	**1,832,616,770**

(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 repossessed 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.

17. Investment in associate (contd.)

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

	2020 MNT'000	2019 MNT'000
At 1 January	–	–
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	**55,315,348**	–
Share of loss of an associate for the period	(14,501,873)	–
At 31 December	**40,813,475**	**–**
Investee: MIK		
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%)	**40,813,475**	**–**
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.

	At 31 December 2020			At 31 December 2019		
	Notional	Fair value		Notional	Fair value	
	amount MNT'000	Assets MNT'000	Liability MNT'000	amount MNT'000	Assets MNT'000	Liability MNT'000
Derivatives held for trading						
Cross-currency interest rate swaps 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	–
	1,117,329,525	89,371,192	99,723,102	855,314,074	79,855,645	76,226,529
Derivatives used for cash flow hedges						
Currency swap (c)	–	–	–	971,940,000	415,006,111	–
	1,117,329,525	**89,371,192**	**99,723,102**	**1,827,254,074**	**494,861,756**	**76,226,529**

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:

			Change in fair value of hedging instrument in the year used for ineffectiveness measurement			
	Notional amount MNT'000	**Fair value of assets MNT'000**	**In total MNT'000**	**Effective portion recognised in OCI (Note 33) MNT'000**	**Hedge ineffectiveness recognised in the profit or loss (Note 10) MNT'000**	**Reclassified from Cash flow hedge reserves to profit or loss (Note 33) MNT'000**
Currency swap						
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)

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
Gross loans and advances to customers	**4,612,265,674**	**3,934,355,996**
Allowance for impairment losses	(503,547,304)	(431,204,350)
Net loans and advances to customers	**4,108,718,370**	**3,503,151,646**

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:

	2020 MNT'000	2019 MNT'000
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	**503,547,304**	**431,204,350**

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.

20. Other assets

	2020 MNT'000	2019 MNT'000
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	(17,441,048)	(270,511)
	101,313,307	**61,516,783**
Foreclosed properties	38,511,494	69,676,287
Less: Allowance for repossessed collaterals	(27,165,495)	(27,404,986)
	11,345,999	**42,271,301**
Total other assets	**112,659,306**	**103,788,084**

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:

	2020 MNT'000	2019 MNT'000
Impairment allowance on other receivables		
At 1 January	270,511	724,883
Charge for the year	14,702,354	186,179
Reversal	(189,862)	(67,399)
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)
At 31 December	**17,441,048**	**270,511**

	2020 MNT'000	2019 MNT'000
Impairment allowance on foreclosed properties		
At 1 January	27,404,986	10,361,264
Charge for the year	18,788,541	19,854,188
Reversal	(11,450,848)	(3,254,647)
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	–
At 31 December	**27,165,495**	**27,404,986**

21. Investment property

	2020 MNT'000	2019 MNT'000
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
At 31 December	**148,990,218**	**80,897,528**

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

	2020 MNT'000	2019 MNT'000
Buildings and real estate	4,138,693	–

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

	Buildings and land MNT'000	Office equipment and vehicles MNT'000	Computers and others MNT'000	Construction-in-progress MNT'000	Total MNT'000
At 31 December 2020					
At cost/valuation					
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	254,033,081	16,053,322	44,224,612	195,184,101	509,495,116
Accumulated depreciation					
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	13,337,362	8,235,479	29,278,264	–	50,851,105
Net carrying amount	**240,695,719**	**7,817,843**	**14,946,348**	**195,184,101**	**458,644,011**

23. Property and equipment (contd.)

	Buildings and land MNT'000	Office equipment and vehicles MNT'000	Computers and others MNT'000	Construction-in-progress MNT'000	Total MNT'000
At 31 December 2019					
At cost/valuation					
At 1 January 2019	172,858,275	20,394,732	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	175,156,275	14,895,699	39,477,689	195,108,901	424,638,564
Accumulated depreciation					
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	4,833,079	6,311,621	21,182,643	–	32,327,343
Net carrying amount	**170,323,196**	**8,584,078**	**18,295,046**	**195,108,901**	**392,311,221**

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.

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:

	Right-of-use assets MNT'000	Lease liabilities MNT'000
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
As at 31 December 2019 and 1 January 2020	**12,717,699**	**(13,591,398)**
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
As at 31 December 2020	**10,132,850**	**(11,384,522)**

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

	2020 MNT'000	2019 MNT'000
At cost		
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
Accumulated amortisation		
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
Net carrying amount	**4,374,414**	**5,870,617**

26. Due to banks and other financial institutions

	2020 MNT'000	2019 MNT'000
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
	102,946,144	**189,383,778**

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

	2020 MNT'000	2019 MNT'000
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	–
	224,287,616	**65,013,356**

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

	2020 MNT'000	2019 MNT'000
Government deposits		
- 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
Private sector deposits		
- 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
Individual deposits		
- 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
	5,311,418,183	**3,821,434,134**

29. Borrowed funds

	2020 MNT'000	2019 MNT'000
Borrowed funds from foreign banks and financial institutions		
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
Borrowed funds from government organizations		
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
	558,736,354	**759,290,707**

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.

30. Sub-ordinated debts

	2020 MNT'000	2019 MNT'000
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

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

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

	2020 MNT'000	2019 MNT'000
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
	628,403,246	**508,520,501**

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.

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)
At 31 December	**4,807,082**	**3,305,102**	**72,723,171**	**50,000,707**	**251,086,754**	**19,298,006**

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%
	100.00%	**100.00%**

Other reserves

	Asset revaluation reserve MNT'000	Available-for-sale investment revaluation reserve MNT'000	Cash flow hedge reserve MNT'000	Total MNT'000
At 1 January 2020	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)
At 31 December 2020	**168,958,820**	**24,098,061**	**–**	**193,056,881**
At 1 January 2019	129,231,895	10,738,119	29,398,246	169,368,260
Net change in fair value	–	7,847,158	–	7,847,158
Fair value gain on hedging instrument	–	–	6,054,050	6,054,050
Revaluation on hedging instrument reclassified to profit or loss against hedged item	–	–	(35,452,296)	(35,452,296)
Changes due to disposal and write-offs	–	3,659,613	–	3,659,613
At 31 December 2019	**129,231,895**	**22,244,890**	**–**	**151,476,785**

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.

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
Segment results							
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	**552,077**	**52,326,513**	**55,859,240**	**3,780,129**	**(65,206,225)**	**(26,334,707)**	**20,977,027**
Segment assets	**3,194,436,232**	**303,501,642**	**670,269,700**	**31,289**	**3,167,711,051**	**780,868,116**	**8,116,818,030**
Segment liabilities	**2,202,554,586**	**857,174,662**	**3,108,776,374**	**360,746,159**	**548,820,303**	**21,234,823**	**7,099,306,907**
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

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
Segment results							
External revenue							
Net interest income/(expense)	293,351,716	57,281,840	(130,353,063)	(186,037,170)	145,785,155	(118,251)	179,910,227
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)	61,981,991	53,444,177	111,240,789	8,075,591	17,397,069	210,695	252,350,312
Operating expense	2,897,156	18	50,594,611	5,298,517	3,317,975	67,780,197	129,888,474
Credit loss expense on financial assets	37,181,478	4,290,567	16,504,129	–	16,468	94,285	58,086,927
Profit/(loss) before tax	21,903,357	49,153,592	44,142,049	2,777,074	14,062,626	(67,663,787)	64,374,911
Income tax expense	–	–	–	–	–	206	206
Net profit/(loss) for the year	**21,903,357**	**49,153,592**	**44,142,049**	**2,777,074**	**14,062,626**	**(67,663,993)**	**64,374,705**
Segment assets	**2,678,840,188**	**350,794,030**	**674,196,579**	**–**	**3,569,685,356**	**550,181,412**	**7,823,697,565**
Segment liabilities	**29,409,430**	**560,583**	**3,485,242,435**	**1,914,125,500**	**1,673,281,520**	**17,375,702**	**7,119,995,170**
Depreciation and amortisation	31,257	–	5,952,756	13,335	12,591	10,338,130	16,348,069
Capital expenditure*	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.

35. Additional cash flow information

	2020 MNT'000	2019 MNT'000
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
Gross carrying cash and cash equivalents amount	**2,115,469,280**	**1,996,383,156**
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)
Net cash and cash equivalents	**1,376,373,291**	**1,426,345,590**

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).

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

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

	2020 MNT'000	2019 MNT'000
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)
At 31 December	**708,343**	**1,360,520**

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 statue. 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
	7,003,322,614	6,980,997,312
Uncovered Guarantees and Letters of credit	289,565,616	350,275,914
Undrawn credit lines	275,547,390	179,013,676
	565,113,006	529,289,590
Total exposure to credit risk	**7,568,435,620**	**7,510,286,902**

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%
	4,612,265,674	**100.00%**	**3,934,355,996**	**100.00%**

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

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
	1,712,834,737	**1,231,339,387**	**1,158,719,576**	**1,236,894,484**	**834,004,104**	**803,785,178**

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
At 31 December 2020						
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	**–**	**570,008,607**	**1,677,576,345**	**89,371,192**	**4,108,718,370**	**36,659,748**
At 31 December 2019						
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	**452,916,902**	**301,381,272**	**1,775,327,393**	**494,861,756**	**3,503,151,646**	**21,445,474**

*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 a the Bank's liquid assets, including cash on hand, deposits and placements with banks and other financial institutions, balances with BoM and investment securities to the Bank's liquid liabilities; including deposit from customers, deposits and placements from the banks and other financial institutions, loans from foreign financial institutions, taxation and debt securities issued.

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

	2020	**2019**
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.

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
Financial assets							
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
	1,693,297,699	1,281,688,778	712,145,238	1,317,418,312	3,059,392,860	1,256,938,026	9,320,880,913
Financial liabilities							
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
	2,446,786,520	1,289,767,880	1,154,883,285	1,364,953,720	1,650,917,792	44,773,354	7,952,082,551
	(753,488,821)	(8,079,102)	(442,738,047)	(47,535,408)	1,408,475,068	1,212,164,672	1,368,798,362

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
Financial assets							
Cash and balances with Bank of Mongolia	643,184,070	453,378,560	–	–	–	–	1,096,562,630
Due from other banks and financial institutions	136,261,549	110,286,345	45,078,113	2,034,643	18,230,958	7,809,122	319,700,730
Financial investments	51,679,949	680,154,027	114,404,835	180,267,506	1,108,836,237	349,334,960	2,484,677,514
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
	850,042,778	1,680,587,726	980,611,171	1,024,351,680	3,008,273,966	1,093,649,516	8,637,516,837
Financial liabilities							
Due to banks and other financial institutions	23,778,068	65,285,321	74,606,036	29,221,838	–	–	192,891,263
Repurchase agreements	13,356	–	–	–	74,787,397	–	74,800,753
Due to customers	1,630,002,045	830,960,811	558,954,585	753,216,454	130,060,721	27,241,409	3,930,436,025
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
	1,859,941,655	1,413,731,402	2,193,812,222	1,097,058,112	1,244,173,921	216,016,676	8,024,733,988
	(1,009,898,877)	266,856,324	(1,213,201,051)	(72,706,432)	1,764,100,045	877,632,840	612,782,849

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
At 31 December 2020					
Currency					
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
At 31 December 2019					
Currency					
USD	+/- 100	+/- 898,233	+/- 211,110,719	+/- 808,410	+/- 211,110,719
MNT	+/- 100	-/+ 14,477,075	+/- 211,110,719	-/+ 13,029,368	+/- 211,110,719
OTHER	+/- 100	-/+ 211,104	+/- 211,110,719	-/+ 189,993	+/- 211,110,719

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.

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:

	Historical Simulation 2020 MNT'000	2019 MNT'000
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.

	2020			2019		
	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000	MNT denominated MNT'000	Foreign currencies MNT'000	Total MNT'000
Financial assets						
Cash and balances with Bank of Mongolia	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
	5,208,639,437	2,165,085,374	7,373,724,811	5,075,162,156	2,174,395,734	7,249,557,890
Financial liabilities						
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
	4,466,230,690	2,623,687,452	7,089,918,142	3,465,839,773	3,648,015,870	7,113,855,643
Off-balance foreign currency exposure, net		350,481,276			1,368,791,743	
Net foreign currency exposure		(108,120,802)			(104,828,393)	

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
At 31 December 2020			
Currency			
USD	+/- 10%	+/- 3,220,395	+/- 230,000,000
OTHER	+/- 10%	+/- 7,626,615	+/- 230,000,000
At 31 December 2019			
Currency			
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.

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
Financial assets				
Available-for-sale investment securities				
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
Non-financial assets				
Revalued properties	–	–	240,695,719	240,695,719
Investment properties	–	–	148,990,218	148,990,218
	52,650,902	**688,492,320**	**606,723,254**	**1,347,866,476**
Financial liability				
Derivative financial instruments	–	–	99,723,102	99,723,102
	–	**–**	**99,723,102**	**99,723,102**

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

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
Financial assets				
Unquoted BoM treasury bills	688,492,320	598,900,912	Market value approach	Central bank policy and repo rates

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:

At 31 December 2020	Fair value MNT`000	Reasonable change	Sensitivity of the input to fair value MNT'000	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
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%
Non-financial assets						
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
Financial liabilities						
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%

At 31 December 2019	Fair value MNT`000	Reasonable change	Sensitivity of the input to fair value MNT'000	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
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%
Non-financial assets						
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
Financial liabilities						
Derivative financial liability	76,226,529	-/+ 100bps	- 14,234,579/ +13,838,263	Discounted Cash Flow approach	MNT discount rate Forward MNT/USD exchange rate	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
Residential mortgage-backed securities		
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	–
At 31 December	**127,666,125**	**97,023,096**
Repossessed assets		
At 1 January	–	75,260,890
Provision charged to retained earnings	–	(75,260,890)
At 31 December	**–**	**–**
Derivative financial assets		
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)	–
At 31 December	**89,371,192**	**494,861,756**
Revalued properties		
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	–
At 31 December	**240,695,719**	**170,323,196**
Investment properties		
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
At 31 December	**148,990,218**	**80,897,528**
Derivative financial liability		
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)
At 31 December	**99,723,102**	**76,226,529**

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
Financial assets		
Loans and advances to customers	4,108,718,370	4,170,765,045
Investment securities held to maturity	835,875,836	857,425,440
Total	**4,944,594,206**	**5,028,190,485**
Financial liabilities		
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
Total	**6,030,294,811**	**6,023,228,527**
As at 31 December 2019		
Financial assets		
Loans and advances to customers	3,503,151,646	3,571,368,119
Investment securities held to maturity	1,050,141,040	1,085,481,584
Total	**4,553,292,686**	**4,656,849,703**
Financial liabilities		
Due to customers	3,821,434,134	3,817,879,697
Borrowed funds	759,290,707	759,290,707
Debt securities issued	1,536,488,710	1,555,656,904
Total	**6,117,213,551**	**6,132,827,308**

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.

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
Balances															
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	–	–	–	–
RMBSs	–	–	–	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	–	–	–	–	–	–	–	–	–	–	–
Transactions															
Interest income on															
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
RMBSs	–	–	–	12,925,910	–	–	–	–	–	–	–	–	–	–	–
Placements in other banks	–	–	–	–	–	–	–	–	–	–	–	5,273,551	–	–	–
Swap	–	–	–	28,799,673	–	–	–	–	–	–	–	–	–	–	–
Interest expense on															
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

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
Balances														
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	–	–	–	–	–	–	–	–	–	–
Transactions														
Interest income on														
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	–	–	–	–	–	–	–	–	–	–
Interest expense on														
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

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.

At 31 December 2020	**Less than 12 months MNT'000**	**More than 12 months MNT'000**	**Total MNT'000**
Assets			
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
Total assets	3,991,893,261	4,124,924,769	8,116,818,030
Liabilities			
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
Total liabilities	5,607,164,239	1,492,142,668	7,099,306,907
Net*	**(1,615,270,978)**	**2,632,782,101**	**1,017,511,123**

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

At 31 December 2019	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Assets			
Cash and balances with Bank of Mongolia	1,096,100,972	–	1,096,100,972
Due from other banks and financial institutions	289,840,576	11,540,696	301,381,272
Financial investments	864,536,050	968,080,720	1,832,616,770
Derivative financial instruments	423,151,021	71,710,735	494,861,756
Loans and advances to customers	1,445,676,836	2,057,474,810	3,503,151,646
Other assets	36,076,696	67,711,388	103,788,084
Investment property	–	80,897,528	80,897,528
Property and equipment	–	392,311,221	392,311,221
Right-of-use assets	–	12,717,699	12,717,699
Intangible assets	–	5,870,617	5,870,617
Total assets	4,155,382,151	3,668,315,414	7,823,697,565
Liabilities			
Due to banks and other financial institutions	189,383,778	–	189,383,778
Repurchase agreements	13,356	65,000,000	65,013,356
Due to customers	3,691,820,290	129,613,844	3,821,434,134
Derivative financial instruments	–	76,226,529	76,226,529
Borrowed funds	533,042,581	226,248,126	759,290,707
Sub-ordinated debt	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
Total liabilities	5,894,454,205	1,225,540,965	7,119,995,170
Net*	**(1,739,072,054)**	**2,442,774,449**	**703,702,395**

*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:

	2020	2019
Core capital adequacy ratio	14.81%	11.31%
Risk-weighted capital ratio	16.33%	17.04%

41. Capital adequacy (contd.)

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

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

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	2020 Weighted MNT'000	2019 Risk Assets MNT'000	2019 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
Adjustments:				
Operational risk ratio		92,451,036		83,127,737
Foreign exchange risk ratio		132,773,725		63,215,152
Total	**8,570,784,822**	**5,565,778,501**	**8,237,567,860**	**4,880,993,394**

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.