GOLOMT BANK

International Financial Reporting Standards
Financial Statements and Independent Auditor’s Report

31 December 2020

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GOLOMT BANK LLC

Corporate Information

Incorporation decision	Golomt Bank (the "Bank") was incorporated on 06 March 1995.	
Certificate and License	The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 05 December 2005. The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia.	
Board of Governors	Ch. Munkhtsetseg	*Chairwoman*
	Urs E. Schwarzenbach	*Member*
	D. Munkhtur	*Member*
	L. Bolormaa	*Member*
	J. Unenbat	*Member*
	López Abelló	*Independent Member*
	James B. Dwyer	*Independent Member*
Executive Officers	K. Norihiko	*Chief Executive Officer*
	G. Ganbold	*President*
	T. Nyamsuren	*Deputy CEO (Credit)*
	M. Sainbileg	*Chief Information Officer*
	S. Munkhtuya	*Director of Financial Management Division*
	D. Badral	*Director of Corporate Banking Division*
	Ts. Baigalmaa	*Director of Retail and SME Banking Division*
	B. Bayartbileg	*Director of Credit Division*
	T. Otgon	*Director of Risk Management Division*
	G. Uyanga	*Director of Human Resource Division*
	M. Narankhuu	*Director of Business Process Management*
	O. Battsengel	*Director of Information Technology Division*
	Yo. Purevbat	*Director of Operations Division*
	Kh. Purevdorj	*Director of Administration Division*
	J. Khishigjargal	*Director of Financial Institution and Investment Division*
Registered office	Head Office of Golomt bank Sukhbaatar Square 5, P.O.Box 22 Ulaanbaatar 15160, Mongolia	
Auditors	PwC Audit LLP 34 Al-Farabi Avenue, Building A, 4th Floor Almaty 050059, Kazakhstan Medeelel Audit LLC 19-32B, Microdistrict 18 Bayangol District ,Ulaanbaatar, Mongolia	

Independent Auditor's Report

To the Shareholder of Golomt Bank LLC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Golomt Bank LLC (the "Bank") as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's responsibilities for the audit of the financial statements (continued)

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.

Signed by:

PricewaterhouseCoopers LLP

30 March 2021
Almaty, Kazakhstan

Tovuudorj Davaasambuu
Director
Medeelel Audit LLC

30 March 2021
Ulaanbaatar, Mongolia

Golomt Bank LLC
Statement of Financial Position

In thousands of Mongolian Tugriks	Note	31 December 2020	31 December 2019
Assets			
Cash and balances with central bank (other than mandatory reserve)	7	561,259,957	1,110,252,507
Mandatory cash balances with the Bank of Mongolia	8	243,458,197	291,911,405
Due from other banks	9	1,273,144,461	906,564,709
Investments in debt securities	10	1,364,400,620	286,935,722
Investments in equity securities	11	29,495,322	24,697,234
Loans and advances to customers	12	3,031,345,915	3,306,694,312
Investment properties	13	39,671,913	42,387,502
Other assets	14	121,266,425	158,666,998
Deferred income tax assets	31	-	91,018
Derivative financial instruments	38	205,614,803	138,110,388
Intangible assets	15	16,754,344	14,370,011
Premises and equipment	16	144,135,456	147,748,830
Right of Use Assets	17	9,882,736	6,262,751
Repossessed collateral	18	210,576,325	151,317,600
Non-current assets classified as held for sale	19	26,983,976	57,125,324
Total assets		**7,277,990,450**	**6,643,136,311**
Liabilities			
Due to other banks	20	14,638,962	52,928,512
Customer accounts	21	5,285,675,177	4,900,641,622
Other borrowed funds	22	1,202,264,649	916,032,162
REPO arrangements	23	20,088,596	24,876,114
Current income tax liability	31	-	1,444,404
Deferred income tax liability	31	12,356,607	-
Lease liabilities	17	10,611,448	6,524,901
Other liabilities	24	100,796,545	106,156,139
Subordinated debt	25	-	172,027,616
Total liabilities		**6,646,431,984**	**6,180,631,470**
Equity			
Preferred shares	26	16,388,100	25,778,900
Share capital	26	42,159,537	32,014,498
-Share premium	26	291,843,805	135,171,702
Retained earnings		210,853,485	197,396,268
Other reserves		70,313,539	72,143,473
Total equity		**631,558,466**	**462,504,841**
Total liabilities and equity		**7,277,990,450**	**6,643,136,311**

Approved for issue and signed on behalf of the Bank's management on 30th March 2021.

CH. MUNKHTSETSEG
Chairwoman, Board of Governors

K.NORIHIKO
Chief Executive Officer

S. MUNKHTUYA
Head of Financial Management Division

The notes set out on pages 6 to 132 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	Note	2020	2019
Interest income	27	551,881,787	556,957,598
Other similar income	27	18,250,599	20,934,133
Interest expense	27	(364,394,243)	(365,155,590)
Other similar expense	27	(1,385,422)	(851,077)
Net interest income		**204,352,721**	**211,885,064**
Credit loss allowance	12	(93,836,353)	(135,444,583)
Net interest income after credit loss allowance		**110,516,368**	**76,440,481**
Fee and commission income	28	49,077,568	55,098,342
Fee and commission expense	28	(15,595,724)	(17,094,328)
Losses less gains from financial assets at fair value through profit or loss		(1,023,322)	2,319,394
Gains less losses from modification of borrowed fund at amortised cost		1,847,344	-
Gains less losses from financial assets at fair value through other comprehensive income		2,217,585	(3,761)
Gains less losses from financial derivatives		14,504,028	15,029,328
Foreign exchange translation gains less losses		4,182,339	11,971,271
Gains less losses from trading in foreign currencies and precious metals		26,029,308	12,585,157
Losses less gains from loans at fair value through profit or loss		(5,970,851)	-
Losses less gains from modification of financial assets measured at amortised cost, that did not lead to de-recognition		(549,771)	(288,293)
Reversal of expected credit loss allowance of debt securities at amortised cost		47,359	697,526
Impairment of debt securities at fair value through other comprehensive income	10	(2,581,031)	990,237
Reversal of impairment of due from banks		594,619	(839,402)
Losses on initial recognition of assets at rates below market	12	(922,974)	(5,348,937)
Provision charge for other assets	14	(761,576)	(2,689,233)
Losses less gains from non-current asset held for sale		(344,059)	1,792,301
Provision charge for repossessed collateral		(38,176,652)	(9,559,169)
Provision charge for guarantee and LC		(959,246)	1,461,464
Losses less gains on revaluation of investment properties	13	(1,778,646)	3,217,996
Dividend received		232,901	96,178
Other operating income and expenses	29	2,918,037	1,024,184
Administrative and other operating expenses	30	(121,014,584)	(122,005,830)
Profit before tax		**22,489,020**	**24,894,906**
Income tax expense	31	(12,095,260)	(8,590,226)
Profit for the year		**10,393,760**	**16,304,680**
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income:			
- Gains less losses arising during the year		2,217,585	(3,761)
- Gains less losses reclassified to profit or loss upon disposal		(2,217,585)	3,761
Items that will not be reclassified to profit or loss:			
Gains less losses on investments in equity securities at fair value through other comprehensive income	32	3,905,911	(8,924,616)
Revaluation of premises and equipment	32	-	1,242,104
Income tax recorded directly in other comprehensive income	32	(976,478)	2,231,155
Other comprehensive income		**2,929,433**	**(5,451,357)**
Total comprehensive income for the year		**13,323,193**	**10,853,323**

The notes set out on pages 6 to 132 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	Note	Preferred shares	Treasury preferred shares	Share capital	Treasury shares	Share premium	Revaluation reserve for securities at FVTOCI	Revaluation reserve for premises	Other reserves	Retained earnings	Total equity
Balance at 1 January 2019		**75,778,900**	**-**	**32,321,857**	**-**	**127,629,293**	**(9,097,995)**	**6,855,242**	**76,745,659**	**202,842,670**	**513,075,626**
Profit for the year		-	-	-	-	-	-	-	-	16,304,680	**16,304,680**
Other comprehensive income		-	-	-	-	-	(6,693,461)	1,242,104	-	-	**(5,451,357)**
Total comprehensive income for 2019		**-**	**-**	**-**	**-**	**-**	**(6,693,461)**	**1,242,104**	**-**	**16,304,680**	**10,853,323**
Cancelation of shares	26	-	-	(5,954,264)	-	(81,045,736)	-	-	-	-	**(87,000,000)**
Cancelation of preferred shares	26	(50,000,000)	-	-	-	-	-	-	-	-	**(50,000,000)**
Conversion of the subordinated loans	26	-	-	5,646,905	-	88,588,145	-	-	-	-	**94,235,050**
Dividends declared	33	-	-	-	-	-	-	-	-	(9,009,657)	**(9,009,657)**
Transfer of revaluation surplus on premises		-	-	-	-	-	-	(350,676)	-	350,676	**-**
Transfer to regulatory reserve		-	-	-	-	-	-	-	3,442,600	(3,442,600)	**-**
Other disbursement		-	-	-	-	-	-	-	-	(9,649,501)	**(9,649,501)**
Balance at 31 December 2019		**25,778,900**	**-**	**32,014,498**	**-**	**135,171,702**	**(15,791,456)**	**7,746,670**	**80,188,259**	**197,396,268**	**462,504,841**
Profit for the year		-	-	-	-	-	-	-	-	10,393,760	**10,393,760**
Other comprehensive income		-	-	-	-	-	2,929,433	-	-	-	**2,929,433**
Total comprehensive income for 2020		**-**	**-**	**-**	**-**	**-**	**2,929,433**	**-**	**-**	**10,393,760**	**13,323,193**
Acquisition of treasury shares	26	-	(9,390,800)	-	(80,500)	(5,102,358)	-	-	-	-	**(14,573,658)**
Conversion of the subordinated loans	26	-	-	10,225,539		161,774,461					**172,000,000**
Dividends declared and paid	33	-	-							(1,695,910)	**(1,695,910)**
Transfer of revaluation surplus on premises		-	-	-		-	-	(251,127)	-	251,127	**-**
Transfer from regulatory reserve		-	-	-		-	-	-	(4,508,240)	4,508,240	**-**
Balance at 31 December 2020		**25,778,900**	**(9,390,800)**	**42,240,037**	**(80,500)**	**291,843,805**	**(12,862,023)**	**7,495,543**	**75,680,019**	**210,853,485**	**631,558,466**

The notes set out on pages 6 to 132 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	Note	2020	2019
Cash flows from operating activities			
Profit/(loss) before tax		**22,489,020**	**24,894,906**
Adjustments to:			
Credit loss allowance	12	93,836,353	135,444,583
Gains less losses from financial assets at fair value through other comprehensive income		(2,217,585)	3,761
Gains less losses from financial assets at fair value through profit or loss		1,023,322	(2,319,394)
Gains less losses from modification of borrowed fund at amortised cost		(1,847,344)	-
Gains less losses from financial derivatives	38	(14,504,028)	(11,081,513)
Gains less losses from modification of financial assets measured at amortised cost, that did not lead to derecognition		549,771	288,293
Losses less gains of loans at fair value through profit or loss		5,970,851	-
Impairment of Due from other banks		(594,619)	839,402
Impairment of debt securities at fair value through other comprehensive income		2,581,031	(990,237)
Reversal of expected credit loss allowance of debt securities at amortised cost		(47,359)	(697,526)
Losses on initial recognition of assets at rates below market		922,974	5,348,937
Gain on disposal of properties	32	(330,660)	1,536,773
Foreign exchange (gains)/losses		(4,182,339)	(11,971,271)
Provision for other assets	14	761,576	2,689,233
Reversal of provision for credit related commitment		959,246	(1,461,464)
Gains less losses from investment properties	13	1,778,646	(3,217,996)
Gains less losses from non-current asset held for sale	19	344,059	(1,792,301)
Depreciation expense	16, 17	20,893,854	14,015,517
Amortisation expense	15	3,300,686	2,860,510
Property and equipment written off	16	199,973	45,682
Impairment provision for repossessed collateral	18	38,176,652	9,559,169
Interest income	27	(570,132,386)	(577,891,731)
Interest expense	27	365,779,665	366,006,667
Cash flows used in operating activities before changes in operating assets and liabilities		**(34,288,641)**	**(47,890,000)**
Decrease in mandatory cash balances with the Bank of Mongolia		48,453,208	163,161,487
(Increase) in due from other banks		(263,571,706)	(305,824,959)
Decrease in debt securities at fair value true profit or loss		39,713,894	114,709,744
(Increase)/decrease in equity securities at fair value true profit or loss		(515,433)	9,794,053
(Increase) in loans and advances		(19,804,309)	(650,176,728)
(Increase)/decrease in other assets		2,613,223	(64,213,447)
(Increase) in repossessed collateral		(44,631,606)	(9,559,169)
(Increase)/decrease in non-current assets classified as held for sale		26,107,289	(20,555,934)
(Increase)/decrease in investment properties		-	(4,875,684)
Decrease in due to other banks		(38,289,550)	(95,838,215)
Increase in customer account		389,215,894	495,714,366
(Decrease)/increase in other liabilities		(6,318,838)	61,031,495
Net cash used in operating activities before tax and interest		**98,683,425**	**(354,522,991)**
Tax paid		(2,068,516)	(15,262,893)
Interest received		507,987,326	525,560,117
Interest income received on investment at fair value through profit or loss		10,458,601	205,299
Interest paid		(357,859,711)	(339,927,112)
Net cash provided used in operating activities		**257,201,125**	**(183,947,580)**

The notes set out on pages 6 to 132 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	**Note**	**2020**	**2019**
Cash flows from investing activities			
Acquisition of debt securities at fair value through other comprehensive income		(348,851,636)	(4,020,651,932)
Acquisition of equity securities at fair value through other comprehensive income		-	(9,012,274)
Proceeds from disposal of debt securities at fair value through other comprehensive income		200,806,180	4,260,523,837
Proceeds from disposal of equity securities at fair value through other comprehensive income		27,694,023	87,659
Acquisition of investment in debt securities carried at amortised cost		-	409,233
Proceeds from redemption of debt securities carried at amortised cost		6,581,628	34,161,381
Proceeds from disposal of investment property		7,705,891	-
Acquisition of premises and equipment	16	(12,180,906)	(31,325,390)
Proceeds from disposal of premises and equipment	16	3,313,026	847,712
Acquisition of intangible asset	15	(5,685,019)	(2,980,195)
Net cash provided from investing activities		**(120,616,813)**	**232,060,031**
Cash flows from financing activities			
Acquisition of treasury ordinary shares	26	(1,062,008)	(45,000,000)
Acquisition of treasury preference shares	26	(13,511,650)	-
Proceeds from repo arrangements		1,822,632,072	3,439,794,977
Repayment of repo arrangements		(1,829,718,400)	(3,571,210,255)
Proceeds from drawdown of other borrowed funds	22	357,938,206	395,226,792
Repayment of other borrowed funds	22	(23,120,151)	(89,115,105)
Repayment of principal of lease liabilities		(5,818,276)	(4,747,112)
Proceeds from subordinated loans	25	-	80,000,000
Repayment of subordinated loans	25	(27,616)	1,732,849
Dividends paid	33	(1,695,911)	(9,009,657)
Other disbursements		-	(9,649,500)
Net cash provided from financing activities		**305,616,266**	**188,022,989**
Effect of exchange rate changes on cash and cash equivalents		39,206,535	47,056,670
Net increase in cash and cash equivalent		**481,407,113**	**283,192,110**
Cash and cash equivalents at the beginning of the period		1,465,380,055	1,182,187,945
Cash and cash equivalents at the end of the period	7	**1,946,787,168**	**1,465,380,055**

Refer to Notes 3 and 10 for information on the MIK-SPC transactions that did not require the use of cash and cash equivalents and were excluded from the Statement of Cash Flows.

Non cash transfers from Loans and advances to Repossessed collaterals, from Repossessed collaterals to Non-current asset held for sale and investment properties were excluded from the Statement of Cash Flows. Refer to Note 4.30, Note 14, Note 19 and Note 20.

The notes set out on pages 6 to 132 form an integral part of these financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2020 for Golomt Bank ("the Bank").

As of 31 December 2020, the Bank's immediate and ultimate parent company is Golomt Financial Group LLC (31 December 2019: Golomt Financial Group LLC). The Bank was incorporated and is domiciled in Mongolia. The Bank is a limited liability company and was established in accordance with the legislation of Mongolia.

Mr. Bayasgalan D., the owner of Golomt Financial Group as of 31 December 2020, represents the ultimate controlling party of the Bank as of 31 December 2020 and 31 December 2019.

The Bank's shareholders as of 31 December 2020 and 31 December 2019 are disclosed in Note 26.

The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 granted by the State Registration Office of Mongolia on 5 December 2005. The Bank holds a full banking license No. 25 dated 6 March 1995 issued by the Bank of Mongolia, Central bank of Mongolia.

In accordance with the effective Charter of the Bank, the Bank's principal activities include:

- Savings;
- Loan services;
- Card services;
- Guarantees and letters of credit;
- Money transfer;
- Sales, purchase, deposit and trading of foreign currencies;
- Sales, purchase, deposit and trading of precious metals;
- Foreign settlement;
- Issuance and trading of securities;
- Financial leasing service;
- Purchase and sales of loans and other financial instruments;
- Custodian banking;
- Other financial services not restricted under the legislation and other activities accepted by the Bank of Mongolia and other government institutions.

The Bank obtained the Special License for underwriting services, custodian banking and insurance services from the Financial Regulatory Commission of Mongolia ("FRC") on 2 June 2011, 27 August 2014 and 21 October 2014 respectively in accordance with the resolution No.163, No.295 and No.358 of FRC.

At 31 December 2020, the Bank had 77 branches within Mongolia (31 December 2019: 77 branches). Also, as at 31 December 2020 the Bank had 26 sub-branches (31 December 2019: 26 sub-branches).

The number of Bank employees as at 31 December 2020 was 2,233 (31 December 2019: 2,273).

The Bank's registered office and principal place of business is Sukhbaatar Square 5, P.O.Box 22, Ulaanbaatar 15160, Mongolia.

These financial statements are presented in Mongolian Tugriks ("MNT").

A glossary of various abbreviations used in this document is included in Note 43.

2 Operating Environment of the Bank

2.1 General

Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. After growing close to 6 percent on average in 2017-2019, the Mongolian economy has contracted amid adverse impact of the COVID-19 pandemic, slow inbound foreign investment into the country and pre-existing macroeconomic vulnerabilities. Mongolian economy is expected to grow by over 4 percent in 2021-2022, supported by private consumption and a stronger impetus on investment in the mining and manufacturing sectors.

The country's rating stood at B with stable outlook on 9 July 2020 by Standard and Poor's Rating Services. Moody's rating agency announced Mongolia's credit rating was "B" dated on 18 December 2020. The following factors are key roles in maintaining the credit rating of 'B': sustainable economic growth in Mongolia; improve budget discipline led by Government; commodity prices.

On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. The government of Mongolia implemented prompt measures to contain the spread of the virus, such as social distancing and border closures.

On 11 November 2020, the State Emergency Committee (SEC) and Ministry of Health announced the first verified case of community transmission of COVID-19 in Mongolia and the city of Ulaanbaatar was placed on State of Readiness, followed by the State of Emergency. All businesses except essential services were closed or made to work from home.

The banking sector of Mongolia has been affected by the pandemic, although mostly indirectly due to worsened credit quality of customers. According to the consolidated financial report of commercial banks from Bank of Mongolia, NPL ratio has increased by 1.51 point as at 31 December 2020 from as at 31 December 2019.

The Government of Mongolia has made several decisions to support the economy during the pandemic including announcement of 6-months payment holidays for consumer and mortgage borrowings between April to September 2020 and January to June 2021. Following the Government decision, The Bank of Mongolia has approved temporary change to policy for Asset classification and provisioning and softened credit quality classification for Consumer and Mortgage loans effective from 31 January 2020 until 30 June 2021.

In 2020, The Bank of Mongolia made a progressive decrease in policy rate to 6% as at 31 December 2020 comparing to 11% as at 31 December 2019 in order to mitigate the negative impact of the COVID-19 pandemic on the economy and the banking and financial sector, as well as the financial burden on citizens, businesses and financial institutions.

In October 2019, the inclusion on Mongolia in the FATF's grey list triggered the national currency to weaken to its lowest level ever as the public preference to invest in foreign currency skyrocketed. Large public debates on the purchasing power of the MNT had the public resort to foreign currency deposits. In October 2020, with efforts from the FRC, and Ministry of Finance, Mongolia has exited the FATF grey list.

In the course of the crisis, the Government has commenced a staged process of Banking sector reforms. In light of commitments made under the IMF's Asset Quality Review implemented until 2019, two of the most prominent banks of Mongolia – Trade and Development Bank and Ulaanbaatar City Banks were consolidated in June 2020. This was in partial, the implementation of the 2018 Banking law amendment introducing new regulations regarding shareholder concentration to improve corporate governance. Subsequently, a Banking sector reform has commenced right after the 2020 parliament elections.

Current uncertainty in the world economy, volatility of financial markets, decline in global prices of commodities, the emergence and spread of the new coronavirus, COVID-19, slowdown of growth of Chinese economy, slowdown of Mongolian economy, depreciation of MNT against USD and EUR, and other potential risks could have a significant negative effect on the Mongolian financial and corporate sectors. The future economic and regulatory situation may differ from management's current expectations.

2 Operating Environment of the Bank (continued)

2.1 General (continued)

For the purpose of measurement of expected credit losses ("ECL"), the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 4 and Note 35 provides more information of how the Bank incorporated forward-looking information in the ECL models.

2.2 Currency transactions

Foreign currencies, particularly, US Dollar and EUR, play an important role in the underlying economics of many business transactions in Mongolia. The table below shows exchange rate of MNT relative to USD and EUR as set by the Central Bank of Mongolia.

Date	USD	EUR
31 December 2020	2,849.51	3,495.78
31 December 2019	2,733.52	3,061.00
31 December 2018	2,642.92	3,028.65
31 December 2017	2,427.13	2,897.87
31 December 2016	2,489.53	2,605.79

3 Basis of Presentation

3.1 General principles

These financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ('IFRS') under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, financial instruments categorised at fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI"). The principal accounting policies applied in the preparation of these financial statements are set out in Note 4. Apart from the accounting policy changes resulting from the COVID-19 related rent concessions amendment to IFRS 16 effective from 1 June 2020, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

The Bank maintains its accounting records in accordance with the applicable legislation of Mongolia. The Bank's financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS. The principal accounting policies applied in the preparation of these financial statements are set out in Note 4.

3.2 Functional and presentation currency

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional currency of the Bank, and the Bank's presentation currency, is the national currency of Mongolia, Mongolian Tugriks ("MNT"). All values in these financial statements are rounded to the nearest thousands, except otherwise indicated.

3.3 Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in these financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.3.1 ECL measurement

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 35. The following components have a major impact on credit loss allowance:

- segmentation of financial assets for the ECL assessment purposes;
- determination of a level of ECL assessment on an individual instrument basis or on a collective basis;
- definition of default applied by the Group;
- development and application of internal credit grading models, which assigns PDs to the individual credit risk grades;
- development and application of internal models used to estimate exposure at default ("EAD") for financial instruments and credit related commitments;
- assessment of loss given default ("LGD"), including the judgements made in valuation of collaterals;
- criteria for assessing if there has been a significant increase in credit risk;
- selection of forward-looking macroeconomic scenarios and their probability weightings.

The Bank used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. The most significant forward-looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2020:

				Assumption for:		
Variable	**Scenario**	**Assigned weight**	**Assigned weight***	**2020**	**2021**	**2022**
GDP growth	Base	66%	57%	5.6%	5.4%	5.5%
	Upside	23%	21%	8.4%	10.8%	11.0%
	Downside	12%	22%	-2.8%	2.7%	0.5%
M2 /YoY growth/	Base	66%	57%	16.0%	10.0%	10.0%
	Upside	23%	21%	24.8%	18.8%	18.8%
	Downside	12%	22%	7.2%	1.2%	1.2%
MNT/USD /YoY growth/	Base	66%	57%	2,935	2,921	2,921
	Upside	23%	21%	2,689	2,674	2,674
	Downside	12%	22%	3,182	3,167	3,167
Loan rate	Base	66%	57%	13.6%	13.6%	13.1%
	Upside	23%	21%	12.2%	12.2%	11.7%
	Downside	12%	22%	16.1%	15.6%	15.1%

*Special weighting assigned to industries heavily impacted by the pandemic. For details of the industries, please refer to Note 35.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

The assumptions and assigned weights were as follows at 31 December 2019:

			Assumption for:		
Variable	Scenario	Assigned weight	2020	2021	2022
Inflation	Base	53%	8.1%	7.0%	6.9%
	Upside	21%	11.5%	10.4%	10.3%
	Downside	26%	4.7%	3.6%	3.5%
Loan rate	Base	53%	16.9%	17.4%	17.4%
	Upside	21%	16.9%	16.9%	16.9%
	Downside	26%	16.9%	17.4%	17.9%
M2 /YoY growth /	Base	53%	13.4%	12.9%	12.9%
	Upside	21%	16.9%	16.4%	16.4%
	Downside	26%	9.9%	9.4%	9.4%
GDP growth	Base	53%	6.5%	5.4%	5.1%
	Upside	21%	9.8%	8.1%	7.7%
	Downside	26%	1.0%	0.4%	0.3%

The Bank considered to change the weight assigned to base and downside scenario and decreased the weight for the downside scenario mainly related to positive outlook for commodity price and expected economy recovery from pandemic.

3.3.2 Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts).

For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both retail and commercial, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting-point and the expected end-point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (e.g. the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

3.3.3 Significant increase in credit risk (“SICR”).

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. In order to determine the SICR, the management considers certain criteria based on its judgment. Refer to Note 35. SICR criteria are:

- 30 days past due for Corporate and SME; 60 days past due for Mortgage and Consumer
- Forbearance status;
- Loans classified with "Special mention" based on "Regulation on asset classification, provisioning and its disbursements" by the Bank of Mongolia.
- Default status.

The Management believes that 30 days past due criteria is no longer the right criteria for SICR for Mortgage and Consumer loans due to payment holidays supported by the Government and softened asset classification and provisioning policy from Bank of Mongolia. Due to the change, the individuals who did not formally applied for the holiday but were not paying on time even though they did not have financial difficulties because the future implication of delayed payment has become limited and they have the opportunity to take payment holiday as well. Therefore, the Bank has made a significant judgement and temporarily changed the criteria for SICR to be 60 days past due for Mortgage and Consumer loans for the period between 31 January 2020 to 30 June 2021 which is in line with change in the asset classification and provisioning policy from Bank of Mongolia. Similarly, default criteria was updated to 120 days past due for those two portfolios during the period.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by MNT 12,323,106 thousands as of 31 December 2020 (31 December 2019: higher by MNT 14,981,110 thousands).

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.3.4 Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

The Bank identified approximately 91% (2019: 58%) of debt securities as a liquidity portfolio and classified as held to collect and sell, while the rest of the debt securities is classified as held to collect on maturity based on the assumption that these securities would only be sold in a stress case scenario.

The Bank assessed that all types of loans meet the criteria for hold to collect business model and determined that the past securitisation transactions happened on only the mortgage loan portfolio which was sold to Mongolian Mortgage Corporation LLC ("MIK HFC LLC") with non-recourse and therefore the portfolio does not qualify hold to collect business model. The past sales to MIK of the mortgage loans were frequent and significant in value, therefore the hold to sell business model is appropriate for it.

3.3.5 Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The instruments that failed the SPPI test are measured at FVTPL and it is related to financial instruments under Mortgage lending program.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

The Bank's loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Bank or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Bank. The cash flows are SPPI if such clauses merely reduce the Bank's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail-in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

3.3.6 Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in de-recognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The de-recognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management analyses the modification at each circumstances with consideration of changes in the contract. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

3.3.7 Write-off policy

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: loans being minimum of 180 days past due after court decision, liquidation or bankruptcy proceedings, and fair value of collateral is less than the costs to repossess it or enforcement activities were completed.

3.3.8 Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 41.

3.3.9 Valuation of premises and investment properties

The investment property is stated at its fair value based on reports annually prepared by an independent, professionally qualified valuation company who has recent experience in valuing similar properties in Mongolia at the end of each reporting period. Valuations of properties obtained from independent professionally qualified appraisers were adjusted for the purpose of these financial statements to avoid double-counting of assets and liabilities that are recognised separately from the valuation in the statement of financial position.

Information of assumptions and valuation technique used in determining fair value are disclosed in Note 39.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.3.10 Determining lease term

The Bank leases office buildings from third parties under contracts, which do not have contractual maturity dates and are automatically renewed unless either party submits a termination notice of 10-30 days. The Bank determines non-cancellable lease period for such leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating or the importance of the premises to the Bank's operations. As a result, the lease term for most significant office buildings has been determined as a period of 1-5 years.

3.3.11 Borrowings from government organizations, central bank, and international financial institutions

The Bank obtains long term financing from Mongolian government organizations, including state-owned Development Bank of Mongolia, the Bank of Mongolia, and international financial institutions at interest rates at which they ordinarily lend and which may be lower than rates at which the Bank could source the funds from other lenders. As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgment is that these funds and the related lending are at market rates and no initial recognition gains or losses should arise.

In making this judgment, management also considers that these instruments represent a principal market. This management's judgment is also applicable to the received funds from the Bank of Mongolia for a mortgage loan program implemented by the Government at an interest rate of 1%, 2% and 4% p.a., which are used for financing of mortgage loans at advantageous rates of 5%, 6% and 8% p.a. defined by the Bank of Mongolia.

The borrowings from international financial institutions or governments organizations and the Bank of Mongolia meeting the above criteria amounted to MNT 214,326,409 thousands as at 31 December 2020 (31 December 2019: MNT 229,153,061 thousands) and are disclosed in Note 22.

3.3.12 Mongolian Mortgage Corporation LLC (MIK) securitisation transaction

During 2020, the Bank participated in three tranches of MIK securitisation transaction. The Bank sold the 5% and 8% mortgage loans to MIK SPC22, MIK SPC23 and MIK SPC24, special purpose companies wholly owned by the MIK HFC LLC for which it received residential mortgage-backed securities (RMBS) Senior RMBS notes bearing interest at 1.0%, 4.5% and 13.0% and Junior RMBS notes bearing interest at 10.5%. The loans have been purchased by abovementioned MIK-SPCs on a non-recourse basis. The principal of the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. The Bank has been appointed as the Servicer of the respective loans sold, and receives a service fee of 2.5% on amount collected for performing this service. Residual net assets in MIK-SPCs, if any, belong to the shareholder of MIK-SPC i.e. MIK HFC LLC.

On the other hand, any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority) with no recourse to MIK. As part of this agreement the Senior RMBS notes obtained by the Bank were used to repay the 1%, 2% and 4% funding received from the Bank of Mongolia for financing the original 5%, 6% and 8% mortgage lending.

Management considered whether these loans have met the de-recognition criteria set out in IFRS. Management's judgement is that although the Bank receives cash from the loan portfolio as an agent, the Bank has transferred its right to receive the cash flows from these 5% and 8% Mortgage Assets and that substantially all the risks and rewards have been transferred.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

In making this judgement, management has considered that the risk profile of the collective or commingled pool of loans from different banks is materially different from the risk profile of the loans it sold due to different borrowers, obligors and locations of mortgaged assets. Management has also considered whether gains or losses should arise on initial recognition of such instruments.

As the transactions were entered into by willing market participants, management's judgement are that these instruments are at market rates and no initial recognition gains or losses should arise. In making this judgement, management also considers that these instruments represent a principal market.

3.3.13 Investment in Investment Fund

As disclosed in Note 14, the Bank has invested in the first investment fund established in Mongolia in late December 2014. As of 31 December 2020, the Bank owns 4.17% (2019: 9.6%) of total registered investment units of this Fund, while 95.83% of investment units have not been yet sold as of the date of approval of these financial statements. Management has assessed that it does not have control on the operating and financial decisions and activities of the Fund. In making this judgment, management has considered the following:

- the Fund is managed by managing company which is not related to the Bank's owners or management, and the Bank has no right to receive any dividends during the operation of the Fund;
- further, by the contract and the law, management company should be independent and make decisions for the benefit of the fund;
- maximum loss that the Bank can make is to lose its own invested money, but there are no guarantees or obligations to cover losses of other investors. In terms of returns, they are related to the Bank's own purchased investment units i.e. the Bank is not entitled to any rewards related to the investment made by other investors;
- the Bank is not involved in approving investments made by the fund and the managing company of the fund can decide to make investment in other types of assets, and no approval of the Bank is needed for such decision.

The bank exercises significant influence on the investment fund through membership in the Board of Director's meeting. Therefore, the investment is measured by equity method under IAS 28.

3.3.14 Deferred taxation on financial derivatives and foreign exchange translation differences.

Gains and losses arising from the changes in fair value of derivatives are not regulated by the current tax legislation or by the supporting supplementary tax regulations. The current legislation only regulates the tax treatment of foreign exchange gains and losses generally. Based on the Corporate Income Tax Law realized foreign exchange gains are taxable, realized foreign exchange losses are deductible, while taxation of unrealized foreign exchange gains and losses is deferred until the period in which they become realized. As a result, unrealized gains or losses arising from the changes in fair value of financial derivatives (including long-term swaps) and unrealized foreign exchange differences arising from the related long-term borrowings from international financial organizations are treated as non-taxable income and non-deductible expenses until they become realized (i.e. until the maturity of the borrowings), thus creating a taxable or deductible temporary difference. As a result, net deferred tax liability of MNT 38,933,666 thousands is recognized as of 31 December 2020 (31 December 2019: MNT 28,541,465 thousands), refer to Note 31.

In making this judgment, management considered IFRS principles, nature of transactions, tax legislation governing similar transactions (such as tax treatment of gains and losses arising from foreign currency transactions and translation of financial assets denominated in foreign currency), current practices of tax authorities, including results of previous tax inspections, and practices applied in the banking sector, including practicability of differentiation between realized and unrealized gains and losses.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

Given that tax legislation and supporting regulations do not explicitly address tax treatment of the realized and unrealized gains and losses from financial derivatives and require differentiation of unrealized and realized foreign exchange gains on all financial assets and liabilities for tax purposes, management has assessed the risk that tax authorities may take different position and treat unrealized gains from open derivative positions as taxable income or otherwise challenge the Bank's accounting policy (Note 4) and tax treatment and impose additional tax obligation.

Certain changes in value of foreign exchange derivatives represent unrealized gains and losses, and are therefore treated as temporary differences (Notes 3 and 31), except when related gains and loss were already treated as taxable income and deductible expenses in previous periods. Long-term swaps with the Central Bank are taken to swap USD denominated long-term borrowings from international financial institutions to local currency.

However, based on all available information at the date of issuance of this financial, management believes that such risk is remote. For more details on income tax, refer to Note 31. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 31.

3.3.15 Fair value of long term derivatives

The Bank entered into a long term cross currency interest rate SWAP arrangement with the Bank of Mongolia with start dates from 2018 to 2020. These derivatives are measured at fair value through profit and loss. The arrangement is to swap MNT/USD on regular basis based on interest rate formula with maturities ranging from 1 year to 8 years. The Bank developed a valuation model for assessing a fair value of such swap instruments. The model is fully based on observable market data. The Bank considers the fair value of swaps assessed based on the model to be a Level 2 valuation, and hence the Day 1 gain on such a derivative instrument is recognised in the statement of profit and loss.

Information about assumptions used for valuation of fair value of instruments is disclosed in Note 39.

3.3.16 Initial recognition of other financial instruments below market rate

IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. When determining the amounts of loss/gain on initial recognition in relation to below market rate, management made judgements based on available information that weighted average lending rate of Mongolian commercial banks represents reasonable approximation of market interest rate on MNT funding in case of credit (counterparty).

4 Significant Accounting Policies

The following significant accounting policies were adopted in preparation of these financial statements of the Bank. These policies have been consistently applied to all the periods presented unless otherwise stated (refer to Note 5).

4.1 Financial assets

The Bank classifies its financial assets in the following classes:

- Cash and cash equivalents (Note 4.3 and 4.4);
- Due from other banks (Note 4.5);
- Investments in debt securities (Note 4.6);
- Investments in equity securities (Note 4.7);
- Loans and advances (Note 4.9).

For presentation of financial assets by measurement category, refer to Note 40.

The Bank determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

(i) Key measurement terms

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a Bank of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the Bank of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the Bank of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Management takes the view that valuation technique reaches more accurate presentation of fair value of the derivative financial instruments. Main inputs in the valuation technique are the estimation of the forward rate, discount rates for Mongolian Tugriks and US dollars and weighted average rate of 28 week treasury bills, US 6M LIBOR Spread curve and Z spread.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 39.

4 Summary of Significant Accounting Policies (continued)

4.1 Financial assets (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

(ii) Initial recognition of financial instrument

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Bank uses discounted cash flow valuation techniques to determine the fair value of long term cross currency interest rate swaps and foreign exchange swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition and the amount determined at subsequent period. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

(iii) Classification and subsequent measurement – measurement categories

The Bank classifies financial assets in the following measurement categories: FVTPL, FVTOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

4 Summary of Significant Accounting Policies (continued)

4.1 Financial assets (continued)

(iv) Classification and subsequent measurement – business model

The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a Bank of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 3 for critical judgements applied by the Bank in determining the business models for its financial assets.

(v) Classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 3 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

(vi) Reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows the change in the business model. The Bank did not change its business model after once the reclassification on financial assets and liabilities as part of transition to IFRS 9 was completed.

(vii) Credit loss allowance for ECL

The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVTOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVTOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVTOCI.

4 Summary of Significant Accounting Policies (continued)

4.1 Financial assets (continued)

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 35 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 35 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

(viii) Write-off

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due; however, there is no reasonable expectation of recovery.

(ix) Derecognition of financial assets

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

(x) Modification

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

4 Summary of Significant Accounting Policies (continued)

4.1 Financial assets (continued)

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in de-recognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

4.2 Foreign currency translation

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Bank of Mongolia at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Bank of Mongolia, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Exchange rates used in the preparation of these financial statements were as follows:

	2020	**2019**
Mongolian national Tugriks/US Dollar	2,849.51	2,733.52
Mongolian national Tugriks/EURO	3,495.78	3,061.00
Mongolian national Tugriks/British Pound Sterling	3,856.24	3,582.96
Mongolian national Tugriks/Chinese Yuan	436.13	391.12
Mongolian national Tugriks/Russian Rubble	38.50	44.22

4.3 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include deposits with the Central Bank (the Bank of Mongolia), other than required mandatory reserve, the Bank of Mongolia and Government treasury bills, and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

4 Summary of Significant Accounting Policies (continued)

4.4 Mandatory cash balances with the Central Bank of Mongolia

Mandatory cash balances with the Central Bank of Mongolia represent mandatory reserve deposits with Central Bank of Mongolia, which are not available to finance the Bank's day-to-day operations. The mandatory reserve balance is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

4.5 Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

4.6 Investment in debt securities

Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVTOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVTOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVTOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

4.7 Investments in equity securities

Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Bank. Investments in equity securities are measured at FVTPL, except where the Bank elects at initial recognition to irrevocably designate an equity investments at FVTOCI. The Bank's policy is to designate equity investments as FVTOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVTOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

4.8 Derivative financial instruments

Derivative financial instruments primarily include foreign exchange contracts such as forward rate agreements, currency swaps and cross-currency interest rate swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses from financial derivatives). The Bank does not apply hedge accounting.

4 Summary of Significant Accounting Policies (continued)

4.9 Loans and advances to customers

Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVTOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 35 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

4.10 Promissory notes purchased

Promissory notes purchased are included in investments in debt securities, due from other banks or loans to customers, depending on their economic substance and are recorded, subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

4.11 Non-Current assets Classified as Held for Sale

Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Held for sale premises and equipment are not depreciated. Reclassified non-current financial instruments are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

4.12 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

4.13 Financial liabilities

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

4 Summary of Significant Accounting Policies (continued)

4.13 Financial liabilities (continued)

Financial liabilities – de-recognition: Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Financial liabilities designated at FVTPL: The Bank may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

Due to other banks – Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at AC.

Customer accounts - Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers in respect of settlement accounts and deposits, and are carried at AC.

Other borrowed funds - Other borrowed funds include loans obtained from international financial institutions and Mongolian government organizations. These financial liabilities are carried at AC using the effective interest rate method.

Subordinated debts - Subordinated debts are carried at AC using the effective interest rate method.

Other liabilities – Other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

4.14 Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repo agreements”), which effectively provide a lender’s return to the counterparty, are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is recognised in the Statement of financial position within line “Repurchase agreements”.

Securities purchased under agreements to resell (“reverse repo agreements”), which effectively provide a lender’s return to the Bank, are recorded as reverse sale and repurchase agreements. The difference between the sale and repurchase price is treated as interest income in the statement of profit or loss and other comprehensive income and accrued over the life of reverse repo agreements using the effective interest rate method.

4 Summary of Significant Accounting Policies (continued)

4.14 Repurchase and reverse repurchase agreements (continued)

Based on classification of securities sold under the sale and repurchase agreements, the Bank classifies repurchase receivables into one of the following measurement categories: AC, FVTOCI, and FVTPL.

4.15 Premises and equipment

Premises are stated at revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Bank are initially measured at cost. Premises are subject to regular revaluations, with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to accumulated deficit or retained earnings when the surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Revalued amounts of the Bank's premises is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The Bank applies revaluation model for premises since 2013. Equipment owned by the Bank is stated at cost less depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

Leasehold improvements are alterations made to rented properties by the Bank to customise it to its particular business needs and preferences. The improvements that are specialised to the Bank's intended use of the property are treated as own assets for accounting purposes.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Land and construction in progress is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

- Premises – 40 years;
- Motor vehicles – 10 years;
- Furniture – 10 years;
- Office equipment and computer – from 3 to 10 years;
- Leasehold improvements - shorter of useful life and the term of the underlying lease.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

4 Summary of Significant Accounting Policies (continued)

4.16 Investment property

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

Investment property is initially measured at cost, which is the purchase price plus any directly attributable expenses. Investment properties are subsequently measured at fair value, which reflects market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs.

Gains or losses arising from changes in the fair value of investment properties are recognised in the profit or loss account in the year they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss in the year they arise.

Investment property is derecognized upon its sale or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss arising on de-recognition of investment property is recognized in the profit or loss account in the year of de-recognition.

Fair value of the Bank's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The Bank applies fair value model for valuation of investment properties since 2013.

4.17 Intangible assets

The Bank's intangible assets have definite useful life and primarily include capitalised computer software licenses, and land use rights. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets with finite lives are amortised on straight-line basis over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation periods and methods are reviewed at least at each financial year-end. The estimated useful lives of intangible assets are as follows:

- Software licenses – from 3 to 20 years;
- Land use rights – period of land use rights.

4.18 Leases

Accounting for leases by the Bank as a lessee. The Bank leases office premises, ATM space, and warehouse. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

4 Summary of Significant Accounting Policies (continued)

4.18 Leases (continued)

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Bank accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The Bank applied the Amendment to IFRS 16 to COVID-19 related rent concessions granted by lessors for the period April - June 2020. These concessions were recorded as a reduction in the lease liability and variable rent in the period in which they were granted. The Bank did not receive any material rent concessions.

Accounting for operating leases by the Bank as a lessor. When assets are leased out under an operating lease, the lease payments receivables are recognised as rental income on a straight-line basis over the lease term.

Accounting for finance leases by the Bank as a lessee. Where the Bank is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Bank, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other borrowed funds. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Bank is not reasonably certain that it will obtain ownership by the end of the lease term.

4 Summary of Significant Accounting Policies (continued)

4.19 Share capital and preferred shares

Ordinary shares and non-redeemable preference shares with discretionary dividends are both 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. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity. Dividends for these are only recognised once declared.

Preference shares which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised as interest expense on an AC basis, using the effective interest method.

4.20 Treasury shares

Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Bank until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity. Any gain or loss on reissuance is recognised in retaind earnings

4.21 Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

4.22 Dividends

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The basis for distribution of dividends is statutory retained earnings.

4.23 Contingent assets and liabilities

Contingent assets are not recognised in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the financial statements in case the possibility of any outflow in settlement is remote.

4.24 Credit related commitments

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan.

4 Summary of Significant Accounting Policies (continued)

4.24 Credit related commitments (continued)

Loan commitments (continued) To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability. Note 35 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Financial guarantees. Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset. Note 35 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

4.25 Provisions

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

From 2016 the Bank creates provision for operational risks. This reserve represents a part of other reserve and is created as an appropriation of retained earnings based on the decision made by the Bank's management.

4.26 Fiduciary Assets

Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

These fees are recognised over time, on a straight-line basis, when the services are rendered because the customer simultaneously receives and consumes the benefits as the Bank performs. Fees from fiduciary activities are presented within fee and commission income.

4.27 Taxation

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised in the same or a different period in other comprehensive income or directly in equity.

4 Summary of Significant Accounting Policies (continued)

4.26 Taxation (continued)

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction when initially recorded affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Certain changes in value of foreign exchange derivatives represent unrealized gains and losses, and are therefore treated as temporary differences (Notes 3.3.14). Foreign currency translation differences arising from all other financial assets and liabilities are recognized within foreign exchange gains less losses and do not give rise to temporary differences.

The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

4.28 Employee benefits and social contributions

(i) Short-term benefits

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

(ii) Defined contribution plans

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

4.29 Income and expense recognition

Interest income and expense are recorded for all debt instruments other than those at FVTPL on an accruals basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'other similar income' line in profit or loss.

4 Summary of Significant Accounting Policies (continued)

4.29 Income and expense recognition (continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

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

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

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in P&L due to the asset being in stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees or fees for servicing loans on behalf of third parties. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements.

4.30 Repossessed collateral

Repossessed collateral (foreclosed assets) represents financial and non-financial assets acquired by the Bank in settlement of overdue loans, which include immovable property (e.g. premises) and movable property (cars, equipment, inventories), as well as financial assets such as securities. The assets are initially recognised at cost when acquired and included in the line 'Repossessed collateral' in the Statement of Financial Position. Depending on their nature and the Bank's intention in respect of recovery of these assets, these assets are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

In case of non-financial assets, if the Bank's management makes decision to use acquired immovable property for its own business activities, the Bank reclassifies repossessed collateral such as premises to line 'Premises and Equipment' and account for it in accordance with the accounting policy for property and equipment (Note 4.15).

If the Bank decides to keep premises in its ownership in order to earn rental income or for capital appreciation, or both, and not to occupy premises by the Bank, the Bank reclassifies repossessed collateral to

4 Summary of Significant Accounting Policies (continued)

4.30 Repossessed collateral (continued)

line 'Investment property' and accounts for it in accordance with the accounting policy for investment property (Note 4.16).

In case the Bank makes decision to sell its movable and/or immovable property acquired as repossessed collateral, the Bank applies the accounting policy for inventories and keep them in line 'Repossessed collateral' on the face of the Statement of financial position unless IFRS 5 criteria are met and these assets represent assets held for sale. For details on non-financial repossessed assets, which are planned to be sold, refer to Note 18.

In case of repossessed collateral in the form of financial asset such as securities, which value will be recovered through sale, the Bank classifies them depending on the financial assets characteristics and business model for IFRS measurement purposes and measures them at fair value. Fair value of repossessed financial collateral (securities) is determined on each reporting date and changes in fair value recognised within "Revaluation reserve" in either profit or loss or other comprehensive income depending on the assets classification. For details on financial repossessed assets, refer to Note 18.

4.31 Inventories

Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

4.32 Precious metals

The Bank has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price margin. Precious metals are carried at the fair value.

5 Adoption of New or Revised Standards and Interpretations

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020, but the Bank has early adopted). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

The Bank negotiated various rent concessions with lessors for leases of properties and concluded that some of these concessions qualified for applying the practical expedient in the IFRS 16 amendment. As a result, the Bank reduced the lease liability as of 31 December 2020 by MNT 80,741 thousand and recognised MNT 85,868 thousand in the income statement.

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Bank:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of material – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

6 Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Bank has not early adopted.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Bank is currently assessing the impact of the new standard on its financial statements.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments. The Bank is currently assessing the impact of the new standard on its financial statements.

6 Accounting Pronouncements (continued)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the amendments on its financial statements. The Bank is currently assessing the impact of the new standard on its financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Bank is currently assessing the impact of the amendments on its financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Bank is currently assessing the impact of the amendments on its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities.

6 Accounting Pronouncements (continued)

The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for de-recognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Bank is currently assessing the impact of the amendments on its financial statements.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- *End date for Phase 1 relief for non-contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statement

7 Cash and Cash Equivalents

Cash and balances with central bank (other than mandatory reserve)

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Cash on hand	126,009,968	104,767,167
Current account with the Bank of Mongolia (other than mandatory reserve)	435,249,989	1,005,485,340
Cash and cash balances with central bank	**561,259,957**	**1,110,252,507**

Cash and balances with central bank (other than mandatory reserve) are not collateralised. Credit quality of current account with the Bank of Mongolia based on credit risk grade is “satisfactory” and had a B3 rating from Moody’s as at 31 December 2020 and 31 December 2019. Currency, interest rate and maturity analysis of Cash and balances with central bank (other than mandatory reserve) are disclosed in Note 35.

Cash and cash equivalents for the purposes of the cash flow statement are presented below:

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Cash and balances with the central banks (Note 7)	561,259,957	1,110,252,507
Treasury bills of the Bank of Mongolia with original maturities of less than three months (Note 10)	1,096,937,280	168,951,043
Due from banks (Note 9)	288,589,932	186,176,505
Total cash and cash equivalents	**1,946,787,169**	**1,465,380,055**

For the purpose of ECL measurement, cash and cash equivalents balances are included in Stage 1 as of 31 December 2020 and 31 December 2019. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents. Please see Note 35 for inputs, assumptions and estimation techniques used for ECL calculation.

8 Mandatory reserves with the Bank of Mongolia

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Mandatory cash balances with the Bank of Mongolia	243,458,197	291,911,405
Mandatory cash balances with the Bank of Mongolia	**243,458,197**	**291,911,405**

Current accounts with the Bank of Mongolia are maintained in accordance with the regulations of the Bank of Mongolia. The mandatory cash balances maintained with the Bank of Mongolia are determined at not less than 8.5% in MNT and 15% in foreign currency (2019: 10.5% in MNT and 15% in foreign currency) of customer deposits for a period of 2 weeks. According to the Bank of Mongolia resolution dated 29 March 2018, the Bank maintains 50% of the mandatory reserve balance as at the reporting date.

Credit quality of current account with the Bank of Mongolia based on credit risk grade as at 31 December 2020 is “satisfactory” and neither past due nor impaired as at 31 December 2020 and 31 December 2019. For the purpose of ECL measurement, mandatory cash balances are included in Stage 1 as of 31 December 2020 and 31 December 2019.

8 Mandatory reserves with the Bank of Mongolia (continued)

The ECL for these balances represents an insignificant amount; therefore, the Bank did not recognise any credit loss allowance. Please see Note 35 for inputs, assumptions and estimation techniques used for ECL calculation.

9 Due from Other Banks

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Correspondent accounts with other banks		
Foreign	272,238,403	175,105,319
Domestic	2,686,086	10,776,841
Short-term placements with other banks		
Foreign	3,653,594	294,345
Domestic	10,011,849	-
Placements with other banks with original maturities of more than three months	984,554,529	720,388,204
Total due from other banks	**1,273,144,461**	**906,564,709**

Placements with other banks with original maturities of more than three months as at 31 December 2020 include current accounts with maturities ranging from 1 year to 5 years. The increase as at 31 December 2020 relates to a new placement at a foreign financial institution in the amount of USD 136,000 thousands which is collateralised for a borrowing from the same institution (refer to Note 22).

The following table contains an analysis of due from other banks balances by credit quality at 31 December 2020 and 31 December 2019 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurement. Refer to Note 35 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other banks balances.

In thousands of Mongolian Tugriks	**31 December 2020 Stage 1 (12-months ECL)**	**31 December 2019 Stage 1 (12-months ECL)**
- Excellent	1,111,583,041	713,235,350
- Good	17,051,805	5,587,220
- Satisfactory	16,406,584	12,889,393
- Special monitoring	128,347,814	175,692,148
Gross carrying amount	**1,273,389,244**	**907,404,111**
Less: Credit loss allowance	(244,783)	(839,402)
Carrying amount	**1,273,144,461**	**906,564,709**

Currency, interest rate and maturity analysis of due from other banks are disclosed in Note 35.

10 Investments in Debt Securities

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Debt securities at FVTOCI	1,242,830,827	169,387,815
Debt securities mandatorily measured at FVTPL	116,890,897	106,342,392
Debt securities at AC	4,741,411	11,315,389
Less: Credit loss allowance	(62,515)	(109,874)
Total investments in debt securities	**1,364,400,620**	**286,935,722**

The significant increase in Debt securities at FVTOCI relates to the additional investment in Bank of Mongolia Treasury Bills.

The table below discloses investments in debt securities at 31 December 2020 by measurement categories and classes:

In thousands of Mongolian Tugriks	**Debt securities at FVTOCI**	**Debt securities mandatorily measured at FVTPL**	**Debt securities at AC**	**Total**
Treasury bills of the Bank of Mongolia (a)	1,096,937,280	-	-	**1,096,937,280**
MIK bonds – Senior RMBS (b)	-	5,394,927	-	**5,394,927**
MIK bonds – Junior RMBS (b)		111,495,970		**111,495,970**
Government bonds (c)	145,893,547	-	4,741,411	**150,634,958**
Total investments in debt securities at 31 December 2020 (fair value or gross carrying value)	**1,242,830,827**	**116,890,897**	**4,741,411**	**1,364,463,135**
Less: Credit loss allowance	**-**	**-**	(62,515)	**(62,515)**
Total investments in debt securities at 31 December 2020 (carrying value)	**1,242,830,827**	**116,890,897**	**4,678,896**	**1,364,400,620**

The table below discloses investments in debt securities at 31 December 2019 by measurement categories and classes:

In thousands of Mongolian Tugriks	**Debt securities at FVTOCI**	**Debt securities mandatorily measured at FVTPL**	**Debt securities at AC**	**Total**
Treasury bills of the Bank of Mongolia (a)	168,832,512	-	-	**168,832,512**
MIK bonds – Junior RMBS (b)	-	106,342,392	-	**106,342,392**
Government bonds (c)	555,303	-	11,315,389	**11,870,692**
Total investments in debt securities at 31 December 2019 (fair value or gross carrying value)	**169,387,815**	**106,342,392**	**11,315,389**	**287,045,596**
Less: Credit loss allowance	-	-	(109,874)	**(109,874)**
Total investments in debt securities at 31 December 2019 (carrying value)	**169,387,815**	**106,342,392**	**11,205,515**	**286,935,722**

10 Investments in Debt Securities (continued)

(a) Treasury bills of the Bank of Mongolia

Treasury bills of the Bank of Mongolia at FVTOCI represents investment securities held for satisfying the liquidity and business model in a "held to collect and sell".

(b) MIK bonds

The MIK bonds represent the bonds secured by the mortgage loans provided by the Bank to the customers. The MIK bonds are classified as the same category of contractually linked instrument (mortgage loans) at FVTPL. The Bank had an intention to sell the mortgage loans from the initial recognition (refer to Note 3.3.13). The bond represents Junior and Senior residential mortgage-backed securities (RMBS) obtained from a MIK-HFC securitisation transaction as disclosed in Note 3.

As described in Note 3 the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. Any shortfall in the net assets of MIK-HFC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority).

(c) Government bonds

Debt securities classified at FVTOCI represents investment securities held for satisfying the liquidity and business model in a "held to collect and sell".

Debt securities classified at AC represents investment securities held for satisfying the liquidity and business model in a "held to collect”.

Debt securities mandatorily classified as at FVTPL by the Bank represent securities held for trading and securities in a ‘held to sell’ business model as the Bank had an intention to realise a trading gain. On initial recognition, the Bank has designated government bonds at FVTPL. The government bonds at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Bank’s maximum exposure to credit risk, and are not collateralised.

Investments in debt securities at FVTOCI

The following table discloses Treasury bills of the Bank of Mongolia measured at FVTOCI:

In thousands of Mongolian Tugriks	**31 December 2020 Stage 1 (12-months ECL)**	**31 December 2019 Stage 1 (12-months ECL)**
Treasury bills of the Bank of Mongolia		
- Satisfactory	1,097,569,862	168,951,043
Less: Fair value decrease	(632,582)	(118,531)
Carrying value (fair value)	**1,096,937,280**	**168,832,512**

Treasury bills of the Bank of Mongolia with original maturities of less than three months are MNT 1,097,569,862 thousands as at 31 December 2020 (2019: MNT 168,951,043 thousands) and included in cash and cash equivalents for the purposes of the cash flow statement (Note 7).

Treasury bills of the Bank of Mongolia with nominal amount of MNT 20,193,000 thousands and with maturity of 28 days were collateralised by Repo arrangement with Bank of Mongolia (Note 23).

10 Investments in Debt Securities (continued)

The following table discloses Government bonds measured at FVTOCI:

In thousands of Mongolian Tugriks	**31 December 2020 Stage 1 (12-months ECL)**	**31 December 2019 Stage 1 (12-months ECL)**
Government bonds		
- Satisfactory	147,966,810	561,586
Less: Fair value decrease	(2,073,263)	(6,283)
Carrying value (fair value)	**145,893,547**	**555,303**

For description of the credit risk grading used in the tables above, refer to Note 35.

The following table discloses the changes in the credit loss allowance and gross carrying amount debt securities carried at fair value through other comprehensive income between the beginning and the end of the reporting period:

In thousands of Mongolian Tugriks	**Credit loss allowance Stage 1 (12-months ECL)**	**Carrying value Stage 1 (12-months ECL)**
Treasury bills of the Bank of Mongolia at FVTOCI		
At 1 January 2020	**118,531**	**168,951,043**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	632,582	5,793,478,851
Derecognised during the period	(118,531)	(4,864,860,032)
At 31 December 2020	**632,582**	**1,097,569,862**
Government bonds at FVTOCI		
At 1 January 2020	**6,283**	**561,586**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	2,066,980	349,703,413
Derecognised during the period	-	(202,098,094)
Total gross carrying value	**2,073,263**	**148,166,905**
Movements without impact on credit loss allowance charge for the period:		
FX and other movements	-	(200,096)
At 31 December 2020	**2,073,263**	**147,966,809**

10 Investments in Debt Securities (continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount debt securities carried at fair value through other comprehensive income between the beginning and the end of the reporting period:

In thousands of Mongolian Tugriks	**Credit loss allowance Stage 1 (12-months ECL)**	**Carrying value Stage 1 (12-months ECL)**
Treasury bills of the Bank of Mongolia at FVTOCI		
At 1 January 2019	**1,110,022**	**366,256,329**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	118,531	4,055,601,043
Derecognised during the period	(1,110,022)	(4,252,906,329)
At 31 December 2019	**118,531**	**168,951,043**
Government bonds at FVTOCI		
At 1 January 2019	**5,029**	**542,973**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	1,254	-
Total gross carrying value	6,283	542,973
Movements without impact on credit loss allowance charge for the period:		
FX and other movements	-	18,613
At 31 December 2019	**6,283**	**561,586**

10 Investments in Debt Securities (continued)

Investments in debt securities at AC

The following table discloses investments in debt securities measured at AC:

In thousands of Mongolian Tugriks	**31 December 2020 Stage 1 (12-months ECL)**	**31 December 2019 Stage 1 (12-months ECL)**
Government bonds		
- Satisfactory	4,741,411	11,315,389
Less: Credit loss allowance	(62,515)	(109,874)
Carrying value	**4,678,896**	**11,205,515**
Total investments in debt securities measured at AC (gross carrying amount)	**4,741,411**	**11,315,389**
Less: Credit loss allowance	**(62,515)**	**(109,874)**
Total investments in debt securities measured at AC (carrying amount)	**4,678,896**	**11,205,515**

For description of the credit risk grading used in the tables above, refer to Note 35.

The following table discloses the changes in the credit loss allowance for investments in debt securities carried at amortised cost between the beginning and the end of the reporting period:

In thousands of Mongolian Tugriks	**Credit loss allowance Stage 1(12-months ECL)**	**Gross carrying amount Stage 1(12-months ECL)**
Government bonds at AC		
At 1 January 2020	**109,874**	**11,315,389**
Movements with impact on credit loss allowance charge for the period:		
Changes to ECL measurement model assumptions	20,589	-
Derecognised during the period	(67,948)	(6,573,242)
Changes in accrued interest	-	(6,573,978)
Total movements with impact on credit loss allowance charge for the period	(47,359)	(6,573,978)
At 31 December 2020	**62,515**	**4,741,411**

10 Investments in Debt Securities (continued)

The following table discloses the changes in the credit loss allowance for investments in debt securities carried at amortised cost between the beginning and the end of the reporting period:

In thousands of Mongolian Tugriks	**Credit loss allowance Stage 1(12-months ECL)**	**Gross carrying amount Stage 1(12-months ECL)**
Government bonds at AC		
At 1 January 2019	**102,223**	**11,286,467**
Movements with impact on credit loss allowance charge for the period:		
Changes to ECL measurement model assumptions	7,651	-
Changes in accrued interest	-	28,922
Total movements with impact on credit loss allowance charge for the period	**109,874**	**11,315,389**
Corporate bonds at AC		
At 1 January 2019	**737,943**	**23,385,734**
Movements with impact on credit loss allowance charge for the period:		
Derecognised during the period	(705,177)	(21,781,922)
Changes in accrued interest	(32,766)	(1,603,812)
Other movements	-	-
Total movements without impact on credit loss allowance charge for the period	**-**	**-**
As at 31 December 2019	**109,874**	**11,315,389**

11 Investments in Equity Securities

In thousands of Mongolian Tugriks	31 December 2020	31 December 2019
Equity securities at FVTOCI	12,283,858	6,977,881
Equity securities at FVTPL	17,211,464	17,719,353
Total investments in equity securities	**29,495,322**	**24,697,234**

The table below discloses investments in equity securities at 31 December 2020 by measurement categories and classes:

In thousands of Mongolian Tugriks	Equity securities at FVTPL	Equity securities at FVTOCI	Total
Corporate shares	17,211,464	12,283,858	**29,495,322**
Total investments in equity securities at 31 December 2020	**17,211,464**	**12,283,858**	**29,495,322**

11 Investments in Equity Securities (continued)

The table below discloses investments in equity securities at 31 December 2019 by measurement categories and classes:

In thousands of Mongolian Tugriks	Equity securities at FVTPL	Equity securities at FVTOCI	Total
Corporate shares	17,719,353	6,977,881	**24,697,234**
Total investments in equity securities at 31 December 2019	**17,719,353**	**6,977,881**	**24,697,234**

(a) Investments in equity securities at FVTPL

Corporate shares at FVTPL represent securities held for trading and other quoted equity securities for which FVTOCI election was not made on initial recognition.

Corporate shares mainly consist from quoted shares of Mongolian Mortgage Corporation and of APU JSC, both listed on Mongolian Stock Exchange, with fair value of MNT 15,304,300 thousands and MNT 1,270,304 thousands as of 31 December 2020 (2019: MNT 15,355,485 thousands and MNT 1,333,341 thousands).

(b) Investments in equity securities at FVTOCI

As of 31 December 2020, the Bank has invested in MNT 12,283,858 thousands of equity securities at FVTOCI. The FVTOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

12 Loans and Advances to Customers

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Gross carrying amount of loans and advances to customers at AC	3,001,716,158	3,293,326,300
Less: Credit loss allowance	(160,124,524)	(121,193,516)
Total carrying amount of loans and advances to customers at AC	**2,841,591,634**	**3,172,132,784**
Loans and advances to customers at FVTPL / Mortgage/	165,418,490	110,816,093
Loans and advances to customers at FVTPL / Corporate/	24,335,791	23,745,435
Total loans and advances to customers	**3,031,345,915**	**3,306,694,312**

The bank holds a MIK mortgage portfolio of loans and advances to customers that does not meet the SPPI requirement for AC classification under IFRS 9. As a result, these loans and advances were classified as at FVTPL from the date of initial recognition. The corporate loan classified at FVTPL is a modified instrument that had been previously classified as a derivative financial instrument.

Loans and advances to customers at FVTPL are measured taking into account the credit risk. The carrying amount presented in the statement of financial position best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2020 and 31 December 2019 are disclosed in the table below:

	31 December 2020			**31 December 2019**		
In thousands of Mongolian Tugriks	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Loans to corporate customers						
Loans to Corporate	1,264,717,264	(21,067,845)	**1,243,649,419**	1,412,247,654	(42,888,585)	**1,369,359,069**
Loans to SME	690,021,507	(36,122,576)	**653,898,931**	703,654,824	(20,064,585)	**683,590,239**
Loans to individuals						
Consumer loans	734,739,072	(94,985,139)	**639,753,933**	887,861,057	(55,036,115)	**832,824,942**
Mortgage loans	312,238,315	(7,948,964)	**304,289,351**	289,562,765	(3,204,231)	**286,358,534**
Total loans and advances to customers at AC	**3,001,716,158**	**(160,124,524)**	**2,841,591,634**	**3,293,326,300**	**(121,193,516)**	**3,172,132,784**

More detailed explanation of classes of loans to legal entities is provided below:

- Loans to Corporate customers – loans issued to large commercial entities under standard terms;
- Loans to SME – loans issued to small and medium-sized enterprises;
- Consumer loans;
- Mortgage loans.

During 2020, loss on initial recognition of loans at rates below market in the amount of MNT 922,974 thousand (2019: MNT 5,348,937 thousand loss) has been recorded in profit or loss for the year.

12 Loans and Advances to Customers (continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period and comparative periods:

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Corporate								
At 1 January 2020	4,853,248	2,261,756	35,773,581	**42,888,585**	838,752,587	321,364,372	252,130,695	**1,412,247,654**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(284,134)	284,134	-	**-**	(35,930,304)	35,930,304	-	**-**
- to credit-impaired (from stage 1 and Stage 2 to Stage 3)	(462,891)	(795)	463,686	**-**	(52,549,884)	(110,384,373)	162,934,257	**-**
New originated or purchased	2,615,190	3,186	61,454	**2,679,830**	305,315,502	38,354,716	133,350,395	**477,020,613**
Derecognised during the period	(1,891,876)	(2,260,961)	(785,829)	**(4,938,665)**	(349,299,141)	(56,748,845)	(15,282,684)	**(421,330,670)**
Changes to ECL measurement model assump-tions	-	(283,616)	772,273	**488,657**	-	(1,933,277)	(63,440,040)	**(65,373,317)**
Unwinding of discount	-	270,395	638,653	**909,048**	-	-	-	**-**
Changes in accrued interest	-	19,279	2,756,712	**2,775,991**	-	2,335,286	6,375,618	**8,710,905**
Credit loss allowance	-	-	59,073,116	**59,073,116**	-	-	-	**-**
Other movements	583,066	469,266	4,951,207	**6,003,539**	(83,199,194)	(43,721,853)	18,202,993	**(108,718,054)**
Total movements with impact on credit loss allowance charge for the period	**559,355**	**(1,499,112)**	**67,931,272**	**66,991,515**	**(215,663,021)**	**(136,168,042)**	**242,140,540**	**(109,690,524)**
Movements without impact on credit loss allow-ance charge for the period:								
Write-offs	-	-	(83,259,960)	**(83,259,960)**	-	-	(83,259,960)	**(83,259,960)**
Transfer to repossessed collateral	-	-	(6,267,340)	**(6,267,340)**	-	-	(13,900,000)	**(13,900,000)**
FX and other movements	83,292	6,166	625,587	**715,045**	37,159,938	12,957,680	9,202,476	**59,320,094**
At 31 December 2020	**5,495,895**	**768,810**	**14,803,140**	**21,067,845**	**660,249,504**	**198,154,010**	**406,313,750**	**1,264,717,264**

During 2020, a loss on initial recognition of loans at rates below market in the amount of MNT 922,974 thousands has been recorded in profit or loss for the year. It is included in the new originated or purchased loans in above table. Refer to Note 3 for the management judgement.

12 Loans and Advances to Customers (continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period:

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Corporate								
At 1 January 2019	21,500,948	8,807,706	46,451,834	**76,760,488**	1,011,649,613	55,820,064	350,654,181	**1,418,123,858**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	**-**	(23,081,929)	23,081,929	-	**-**
- to credit-impaired (from stage 1 and Stage 2 to Stage 3)	-	(14,071)	14,071	**-**	-	(737,627)	737,627	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-	**-**
- from Stage 3 to Stage 2	-	-	-	**-**	-	26,000,776	(26,000,776)	**-**
New originated or purchased	3,088,243	318,777	16,677,535	**20,084,555**	521,335,313	166,885,197	114,757,365	**802,977,875**
Derecognised during the period	(8,845,814)	(587,475)	(1,260,406)	**(10,693,695)**	(424,470,206)	(20,358,465)	(109,476,030)	**(554,304,701)**
Changes to ECL measurement model assumptions	(6,147,874)	1,936,586	16,389,165	**12,177,877**	(230,836,898)	104,846,594	92,167,048	**(33,823,256)**
Unwinding of discount	660,046	-	832,620	**1,492,666**	-	-	-	**-**
Changes in accrued interest	(2,369)	-	5,500	**3,131**	1,473,239	-	(2,718,059)	**(1,244,820)**
Credit loss allowance	-	25,513,022	69,927,094	**95,440,116**	-	-	-	**-**
Other movements	(5,213,046)	8,035	2,780,425	**(2,424,584)**	(12,703,131)	2,080,662	(43,445,597)	**(54,068,066)**
Total movements with impact on credit loss allowance charge for the period	**(16,460,814)**	**27,174,874**	**105,366,004**	**116,080,066**	**(168,283,612)**	**301,799,066**	**26,021,578**	**159,537,032**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	(33,719,182)	(115,675,648)	**(149,394,830)**	-	(33,719,182)	(115,675,648)	**(149,394,830)**
FX and other movements	(186,886)	(1,642)	(368,609)	**(557,139)**	(4,613,414)	(2,535,576)	(8,869,415)	**(16,018,405)**
At 31 December 2019	**4,853,248**	**2,261,756**	**35,773,581**	**42,888,585**	**838,752,584**	**321,364,372**	**252,130,698**	**1,412,247,654**

During 2019, a loss on initial recognition of loans at rates below market in the amount of MNT 5,348,937 thousands has been recorded in profit or loss for the year. It is included in the new originated or purchased loans in above table. Refer to Note 3 for the management judgement.

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
SME								
At 1 January 2020	2,340,345	778,844	16,945,396	**20,064,585**	492,018,337	43,602,419	168,034,068	**703,654,824**
Movements with impact on credit loss allowance charge for the period:								
Transfers:	(215,439)	215,439	-	**-**	(39,421,316)	39,421,316	-	-
- to lifetime (from Stage 1 to Stage 2)	(588,376)	(601,895)	1,190,271	**-**	(74,371,370)	(27,992,370)	102,363,740	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	47,657	(47,657)	-	**-**	6,462,290	(4,385,626)	(2,076,664)	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)		265,996.53	(265,997)	**-**		4,674,234	(4,674,234)	-
- from Stage 3 to Stage 2	1,606,187	521,520	1,273,034	**3,400,741**	274,801,753	40,924,229	48,259,504	**363,985,486**
New originated or purchased	(722,729)	(109,951)	(2,804,108)	**(3,636,788)**	(210,133,302)	(7,141,327)	(23,392,570)	**(240,667,199)**
Derecognised during the period	(11,984)	108,040	9,696,788	**9,792,844**	(1,062,252)	(8,543,403)	(12,521,361)	**(22,127,016)**
Changes to ECL measurement model assumptions	-	131,498	2,358,438	**2,489,936**	-	-	-	-
Unwinding of discount	-	(562)	2,805,228	**2,804,666**	-	(48,526)	9,557,029	**9,508,503**
Changes in accrued interest	-	-	-	**-**	-	-	-	-
Credit loss allowance	-	-	38,057	**38,057**	-	-	-	**-**
Other movements	(322,562)	(118,670)	1,747,729	**1,306,497**	(59,290,737)	(1,410,796)	(71,195,943)	**(131,897,476)**
Total movements with impact on credit loss allowance charge for the period	**(207,246)**	**363,759**	**16,039,443**	**16,195,956**	**(103,014,934)**	**35,497,731**	**46,319,501**	**(21,197,702)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(273,409)	**(273,409)**	-	-	(273,409)	**(273,409)**
FX and other movements	19,597	-	115,847	**135,444**	2,953,905	251,128	4,632,761	**7,837,794**
At 31 December 2020	**2,152,696**	**1,142,603**	**32,827,277**	**36,122,576**	**391,957,308**	**79,351,278**	**218,712,921**	**690,021,507**

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
SME								
At 1 January 2019	4,053,895	280,435	51,963,818	**56,298,148**	510,808,326	12,980,965	151,061,939	**674,851,230**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(93,683)	93,683	-	**-**	(12,581,081)	12,581,081	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(170,692)	(14,071)	184,763	**-**	(15,116,673)	(9,517,195)	24,633,868	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	200,856	(57)	(200,799)	**-**	614,772	(102,455)	(512,317)	**-**
- from Stage 3 to Stage 2	-	7,790	(7,790)	**-**	-	25,646	(25,646)	**-**
New originated or purchased	1,935,074	622,249	1,182,258	**3,739,581**	375,659,580	28,421,557	30,296,242	**434,377,379**
Derecognised during the period	(1,616,769)	(46,792)	(11,114,123)	**(12,777,684)**	(258,864,770)	(3,337,550)	(40,604,986)	**(302,807,306)**
Changes to ECL measurement model assumptions	(1,182,433)	61,580	(589,522)	**(1,710,375)**	(65,282,217)	2,624,720	43,686,181	**(18,971,816)**
Unwinding of discount	247,703	648	2,585,206	**2,833,557**	-	-	-	**-**
Changes in accrued interest	(6,865)	(110)	128,300	**121,325**	(284,944)	(935)	5,291,155	**5,005,276**
Credit loss allowance	-	-	5,063,907	**5,063,907**	-	-	-	**-**
Other movements	(805,560)	(185,985)	(8,355,648)	**(9,347,193)**	(42,537,939)	(46,924)	(17,020,771)	**(59,605,634)**
Total movements with impact on credit loss allowance charge for the period	**(1,693,225)**	**498,756**	**(11,015,751)**	**(12,210,220)**	**(18,393,772)**	**30,647,945**	**45,743,726**	**57,997,899**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(23,541,192)	**(23,541,192)**	-	-	(23,541,192)	(23,541,192)
FX and other movements	(20,323)	(347)	(461,481)	**(482,151)**	(396,220)	(26,489)	(5,230,404)	**(5,653,113)**
At 31 December 2019	**2,340,347**	**778,844**	**16,945,394**	**20,064,585**	**492,018,334**	**43,602,421**	**168,034,069**	**703,654,824**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Consumer								
At 1 January 2020	7,955,628	5,746,710	41,333,777	**55,036,115**	806,979,991	31,547,121	49,333,945	**887,861,057**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(268,807)	268,807	-	**-**	(15,568,885)	15,568,885	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(674,461)	(2,980,290)	3,654,751	**-**	(56,985,442)	(14,292,877)	71,278,319	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1,947,245	(1,444,848)	(502,397)	**-**	9,036,478	(8,457,884)	(578,594)	**-**
- from Stage 3 to Stage 2	-	29,920	(29,920)	**-**		56,747	(56,747)	**-**
New originated or purchased	2,826,533	285,119	2,274,465	**5,386,117**	219,993,617	1,324,695	3,730,097	**225,048,409**
Derecognised during the period	(993,913)	(269,926)	(2,706,390)	**(3,970,229)**	(216,867,250)	(3,619,395)	(4,373,972)	**(224,860,617)**
Changes to ECL measurement model assumptions	(1,782,210)	1,936,889	27,069,039	**27,223,718**	(2,152,652)	(3,209,680)	(13,336,956)	**(18,699,288)**
Unwinding of discount	-	907,016	5,855,545	**6,762,561**	-	-	-	**-**
Changes in accrued interest	-	80,494	6,264,077	**6,344,571**	-	3,423,903	7,089,241	**10,513,144**
Credit loss allowance	28,314	11,919	(40,202)	**31**	-	-	-	**-**
Other movements	1,290,939	(1,335,130)	(1,405,775)	**(1,479,966)**	(141,680,255)	(4,107,028)	(2,170,453)	**(147,957,736)**
Total movements with impact on credit loss allowance charge for the period	**2,343,640**	**(2,510,031)**	**40,433,194**	**40,266,803**	**(204,224,389)**	**(13,312,634)**	**61,580,935**	**(155,956,088)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	(28,855)	(16,833)	(276,669)	**(322,357)**	(28,856)	(16,833)	(276,668)	**(322,357)**
FX and other movements	1,816	1,661	1,101	**4,578**	3,105,192	47,453	3,815	**3,156,460**
At 31 December 2020	**10,272,229**	**3,221,507**	**81,491,403**	**94,985,139**	**605,831,938**	**18,265,107**	**110,642,027**	**734,739,072**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	**Credit loss allowances**				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Consumer								
At 1 January 2019	8,751,589	2,034,879	25,659,564	**36,446,032**	833,435,959	11,945,356	48,189,151	**893,570,466**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(636,248)	636,248	-	**-**	(26,735,083)	26,735,083	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(914,144)	(918,332)	1,832,476	**-**	(22,744,138)	(5,020,437)	27,764,575	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	435,634	(299,481)	(136,153)	**-**	2,087,204	(1,867,264)	(219,940)	**-**
- from Stage 3 to Stage 2	-	11,526	(11,526)	**-**	-	18,832	(18,832)	**-**
New originated or purchased	1,930,878	686,015	1,427,199	**4,044,092**	326,148,211	6,027,333	1,764,176	**333,939,720**
Derecognised during the period	(721,129)	(132,507)	(2,338,702)	**(3,192,338)**	(208,331,753)	(1,173,868)	(18,790,680)	**(228,296,301)**
Changes to ECL measurement model assumptions	(415,706)	3,656,148	16,006,673	**19,247,115**	(565,724)	(4,590,347)	(4,698,166)	**(9,854,237)**
Unwinding of discount	1,029,950	28,488	2,125,892	**3,184,330**	-	-	-	**-**
Changes in accrued interest	(2,178)	(462)	1,627,750	**1,625,110**	(1,758,030)	(812)	1,404,396	**(354,446)**
Credit loss allowance	207,022	-	6,952,292	**7,159,314**	-	-	-	-
Other movements	(1,403,026)	94,467	1,006,906	**(301,653)**	(93,979,326)	(483,063)	6,777,658	**(87,684,731)**
Total movements with impact on credit loss allowance charge for the period	**(488,947)**	**3,762,110**	**28,492,806**	**31,765,969**	**(25,878638)**	**19,645,458**	**13,983,187**	**7,750,005**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	(212,331)	(43,355)	(12,687,481)	**(12,943,167)**	(212,331)	(43,355)	(12,687,481)	**(12,943,167)**
FX and other movements	(7,698)	(6,924)	(218,098)	**(232,720)**	(365,001)	(338)	(150,908)	**(516,247)**
At 31 December 2019	**8,042,613**	**5,746,710**	**41,246,792**	**55,036,115**	**806,979,988**	**31,547,120**	**49,333,949**	**887,861,057**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Mortgage								
At 1 January 2020	356,992	237,425	2,609,815	**3,204,232**	255,419,581	7,844,416	26,298,768	**289,562,765**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(14,806)	14,806	-	**-**	(7,529,577)	7,529,577		**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(37,371)	(117,644)	155,015	**-**	(17,373,341)	(3,583,709)	20,957,050	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	95,793	(95,793)	-	**-**	3,356,160	(2,876,409)	(479,751)	**-**
- from Stage 3 to Stage 2		-	-	**-**		-	-	**-**
New originated or purchased	683,676	39,769	8,086	**731,531**	86,859,750	1,339,810	1,292,942	**89,492,502**
Derecognised during the period	(18,215)	(20,485)	(229,783)	**(268,483)**	(26,041,906)	(859,648)	(1,985,526)	**(28,887,080)**
Changes to ECL measurement model assumptions	(114,267)	412,187	2,751,142	**3,049,062**	(468,791)	(235,264)	138,152	**(565,903)**
Unwinding of discount	-	39,219	276,672	**315,891**	-	-	-	**-**
Changes in accrued interest	-	13,136	271,417	**284,553**	-	1,059,943	611,152	**1,671,095**
Credit loss allowance	-	-	506	**506**	-	-	-	**-**
Other movements	538,762	(53,687)	175,943	**661,018**	(33,533,740)	(849,705)	(4,622,273)	**(39,005,718)**
Total movements with impact on credit loss allowance charge for the period	**1,133,572**	**231,508**	**3,408,998**	**4,774,078**	**5,268,555**	**1,524,595**	**15,911,746**	**22,704,896**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(29,345)	**(29,345)**	-	-	(29,346)	**(29,346)**
At 31 December 2020	**1,490,564**	**468,933**	**5,989,467**	**7,948,964**	**260,688,136**	**9,369,011**	**42,181,168**	**312,238,315**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Mortgage								
At 1 January 2019	350,927	120,955	2,923,728	**3,395,610**	225,292,664	2,651,487	15,677,891	**243,622,042**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(28,074)	28,074	-	**-**	(5,079,126)	5,079,126	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(11,941)	(105,221)	117,162	**-**	(5,957,589)	(1,758,769)	7,716.358	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	19,008	(6,830)	(12,178)	**-**	1,290,809	(734,743)	(556,066)	**-**
- from Stage 3 to Stage 2	-	-	-	**-**	-	-	-	**-**
New originated or purchased	233,788	138,042	5,322	**377,152**	126,152,396	2,490,337	264,608	**128,907,341**
Derecognised during the period	(69,418)	(1,603)	(178,136)	**(249,157)**	(40,891,497)	(333,526)	(3,894,808)	**(45,119,831)**
Changes to ECL measurement model assumptions	(18,399)	26,578	558,504	**566,683**	(177,702)	(293,884)	(381,026)	**(852,612)**
Unwinding of discount	28,920	1,330	358,890	**389,140**	-	-	-	**-**
Changes in accrued interest	(466)	739	32,847	**33,120**	(879)	2,153	308,035	**309,309**
Credit loss allowance	(16,978)	(655)	13,521	**(4,112)**	(1,727,940)	105,255	297,594	**(1,325,091)**
Other movements	(130,226)	36,014	(1,209,847)	**(1,304,059)**	(40,675,694)	(573,807)	5,271,109	**(35,978,392)**
Total movements with impact on credit loss allowance charge for the period	**6,215**	**116,469**	**(313,915)**	**(191,231)**	**32,932,777**	**3,982,142**	**9,025,804**	**45,940,723**
Movements without impact on credit loss allowance charge for the period:								
FX and other movements	(148)	-	-	**(148)**	-	-	-	**-**
At 31 December 2019	**356,994**	**237,424**	**2,609,813**	**3,204,231**	**258,225,441**	**6,633,629**	**24,703,695**	**289,562,765**

12 Loans and Advances to Customers (continued)

Movements in the expected credit loss allowance for loans to legal entities and individuals during 2020 of are as follows:

In thousands of Mongolian Tugriks	**Loans to Corporate**	**Loans to SME**	**Consumer loans**	**Mortgage loans**	**Total**
Expected credit loss allowance at 1 January 2020	**42,888,585**	**20,064,585**	**55,036,115**	**3,204,231**	**121,193,516**
Credit loss allowance charge/(recovery) during the year	66,991,515	16,195,956	40,266,803	4,774,078	**128,228,352**
Transfer to repossessed collateral	(6,267,340)	-	-	-	**(6,267,340)**
Amounts written off during the year as uncollectible	(83,259,960)	(273,409)	(322,357)	(29,345)	**(83,885,071)**
Exchange difference	715,045	135,444	4,578	-	**855,067**
Expected credit loss allowance at 31 December 2020	**21,067,845**	**36,122,576**	**94,985,139**	**7,948,964**	**160,124,524**

During 2020, the Bank has recovered MNT 34,392,000 thousand from previously written-off loans as circumstances and expectations have changed positively for certain borrowers.

Movements in the expected credit loss allowance for loans to legal entities and individuals during 2019 of are as follows:

In thousands of Mongolian Tugriks	**Loans to Corporate**	**Loans to SME**	**Consumer loans**	**Mortgage loans**	**Total**
Expected credit loss allowance at 1 January 2019	**76,760,488**	**56,298,148**	**36,446,032**	**3,395,610**	**172,900,278**
Credit loss allowance charge/(recovery) during the year	116,080,066	(12,210,220)	31,765,970	(191,231)	**135,444,585**
Amounts written off during the year as uncollectible	(149,394,830)	(23,541,192)	(12,943,167)	-	**(185,879,189)**
Exchange difference	(557,139)	(482,151)	(232,720)	(148)	**(1,272,158)**
Expected credit loss allowance at 31 December 2019	**42,888,585**	**20,064,585**	**55,036,115**	**3,204,231**	**121,193,516**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 35. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Unwinding of discount due to the passage of time because ECL is measured on a present value basis;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and

12 Loans and Advances to Customers (continued)

- Write-offs of allowances related to assets that were written off during the period. The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

The credit quality of loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2020:

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to Corporate				
- Excellent	660,249,504	-	-	**660,249,504**
- Good	-	198,154,010	-	**198,154,010**
- Satisfactory	-	-	342,598,449	**342,598,449**
- Special Monitoring	-	-	44,867,551	**44,867,551**
- Default	-	-	18,847,750	**18,847,750**
Gross carrying amount	**660,249,504**	**198,154,010**	**406,313,750**	**1,264,717,264**
Less: Credit loss allowance	(5,495,895)	(768,810)	(14,803,140)	**(21,067,845)**
Carrying amount	**654,753,609**	**197,385,200**	**391,510,610**	**1,243,649,419**
Loans to SME				
- Excellent	391,957,308	-	-	**391,957,308**
- Good	-	79,351,278	-	**79,351,278**
- Satisfactory	-	-	87,017,107	**87,017,107**
- Special monitoring	-	-	40,023,399	**40,023,399**
- Default	-	-	91,672,415	**91,672,415**
Gross carrying amount	**391,957,308**	**79,351,278**	**218,712,921**	**690,021,507**
Less: Credit loss allowance	(2,152,696)	(1,142,603)	(32,827,277)	**(36,122,576)**
Carrying amount	**389,804,612**	**78,208,675**	**185,885,644**	**653,898,931**
Consumer loans				
- Excellent	605,831,939	-	-	**605,831,939**
- Good	-	18,265,107	-	**18,265,107**
- Satisfactory	-	-	27,090,371	**27,090,371**
- Special monitoring	-	-	11,657,293	**11,657,293**
- Default	-	-	71,894,362	**71,894,362**
Gross carrying amount	**605,831,939**	**18,265,107**	**110,642,026**	**734,739,072**
Less: Credit loss allowance	(10,272,229)	(3,221,507)	(81,491,403)	**(94,985,139)**
Carrying amount	**595,559,710**	**15,043,600**	**29,150,623**	**639,753,933**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Mortgage loans				
- Excellent	260,688,136	-	-	**260,688,136**
- Good	-	9,369,011	-	**9,369,011**
- Satisfactory	-	-	9,985,627	**9,985,627**
- Special monitoring	-	-	11,834,340	**11,834,340**
- Default	-	-	20,361,201	**20,361,201**
Gross carrying amount	**260,688,136**	**9,369,011**	**42,181,168**	**312,238,315**
Less: Credit loss allowance	(1,490,564)	(468,933)	(5,989,467)	**(7,948,964)**
Carrying amount	**259,197,572**	**8,900,078**	**36,191,701**	**304,289,351**

The credit quality of loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2019:

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to Corporate				
- Excellent	838,752,586	-	-	**838,752,586**
- Good	-	321,364,372	-	**321,364,372**
- Satisfactory	-	-	224,617,591	**224,617,591**
- Special monitoring	-	-	5,365,537	**5,365,537**
- Default	-	-	22,147,568	**22,147,568**
Gross carrying amount	**838,752,586**	**321,364,372**	**252,130,696**	**1,412,247,654**
Less: Credit loss allowance	(4,853,248)	(2,261,756)	(35,773,581)	**(42,888,585)**
Carrying amount	**833,899,338**	**319,102,616**	**216,357,115**	**1,369,359,069**
Loans to SME				
- Excellent	492,018,337	-	-	**492,018,337**
- Good	-	43,602,419	-	**43,602,419**
- Satisfactory	-	-	68,865,525	**68,865,525**
- Special monitoring	-	-	27,378,394	**27,378,394**
- Default	-	-	71,790,149	**71,790,149**
Gross carrying amount	**492,018,337**	**43,602,419**	**168,034,068**	**703,654,824**
Less: Credit loss allowance	(2,340,345)	(778,844)	(16,945,396)	**(20,064,585)**
Carrying amount	**489,677,992**	**42,823,575**	**151,088,672**	**683,590,239**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Consumer loans				
- Excellent	806,979,991	-	-	**806,979,991**
- Good	-	31,547,121	-	**31,547,121**
- Satisfactory	-	-	5,399,039	**5,399,039**
- Special monitoring	-	-	7,154,440	**7,154,440**
- Default	-	-	36,780,466	**36,780,466**
Gross carrying amount	**806,979,991**	**31,547,121**	**49,333,945**	**887,861,057**
Less: Credit loss allowance	(7,955,628)	(5,746,710)	(41,333,777)	**(55,036,115)**
Carrying amount	**799,024,363**	**25,800,411**	**8,000,168**	**832,824,942**
Mortgage loans				
- Excellent	255,419,581	-	-	**255,419,581**
- Good	-	7,844,416	-	**7,844,416**
- Satisfactory	-	-	10,756,667	**10,756,667**
- Special monitoring	-	-	5,190,346	**5,190,346**
- Default	-	-	10,351,755	**10,351,755**
Gross carrying amount	**255,419,581**	**7,844,416**	**26,298,768**	**289,562,765**
Less: Credit loss allowance	(356,992)	(237,425)	(2,609,814)	**(3,204,231)**
Carrying amount	**255,062,589**	**7,606,991**	**23,688,954**	**286,358,534**

For description of the credit risk grading used in the tables above, refer to Note 35.

12 Loans and Advances to Customers (continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2020		31 December 2019	
In thousands of Mongolian Tugriks	**Amount**	**%**	**Amount**	**%**
Salary & Consumption	667,504,857	20.92%	791,226,907	23.08%
Trade - Whole & Retail	535,026,489	16.76%	545,913,879	15.93%
Mortgage & House maintenance	477,656,805	14.97%	400,378,858	11.68%
Mining & Exploration	426,436,540	13.36%	274,859,201	8.02%
Construction	279,347,880	8.75%	422,582,398	12.33%
Manufacturing	275,620,815	8.64%	394,394,457	11.51%
Finance	169,129,530	5.30%	193,418,394	5.64%
Maintenance	78,591,940	2.46%	48,673,118	1.42%
Transport & Communication	68,638,098	2.15%	106,902,945	3.12%
Car	47,885,259	1.50%	66,336,919	1.94%
Hotel & Restaurant	35,289,107	1.11%	39,039,653	1.14%
Real estate	32,808,066	1.03%	21,790,854	0.64%
Agriculture	20,937,472	0.66%	28,433,188	0.83%
Healthcare	19,865,872	0.62%	25,476,334	0.74%
Home appliances	17,374,134	0.54%	26,037,725	0.76%
Electricity & Oil	16,150,641	0.51%	17,297,396	0.50%
Education	13,070,122	0.41%	13,461,562	0.39%
Tourism	8,714,285	0.27%	8,135,169	0.24%
Social services	919,383	0.03%	1,160,716	0.03%
Entrepreneurship	465,679	0.01%	509,752	0.01%
Public service	37,465	0.00%	1,502,353	0.04%
Infrastructure	-	0.00%	356,050	0.01%
Total loans and advances to customers carried at AC and at FVTPL before credit loss allowance	**3,191,479,439**	**100%**	**3,427,887,828**	**100%**

12 Loans and Advances to Customers (continued)

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2020:

In thousands of Mongolian Tugriks	**Loans to Corporate**	**Loans to SME**	**Consumer loans**	**Mortgage loans**	**Total**
Loans collateralised by:					
- residential real estate	71,249,885	158,907,316	22,947,352	245,173,411	**498,277,964**
- other real estate	599,718,580	310,092,998	8,335,725	14,711,414	**932,858,718**
- tradable securities	126,004,341	1,882,760	-	-	**127,887,101**
- cash deposits	17,921,830	108,736,295	88,284,548	4,111,038	**219,053,712**
- machinery and equipment	84,278,287	44,621,898	36,262,639	1,164,847	**166,327,671**
- inventories	86,055,092	9,169,615	468,602	243,360	**95,936,669**
- receivables	133,654,436	5,778,353	0	-	**139,432,788**
- guarantees	26,844,942	11,555,473	703,446	43,618,643	**82,722,504**
- other assets	60,409,684	21,192,004	14,056,187	163,022	**95,820,897**
Total	**1,206,137,077**	**671,936,712**	**171,058,499**	**309,185,735**	**2,358,318,022**
Unsecured exposures	58,580,187	18,084,795	563,680,573	3,052,580	**643,398,136**
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,264,717,264**	**690,021,507**	**734,739,072**	**312,238,315**	**3,001,716,158**

Description of collateral held for loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2019:

In thousands of Mongolian Tugriks	**Loans to Corporate**	**Loans to SME**	**Consumer loans**	**Mortgage loans**	**Total**
Loans collateralised by:					
- residential real estate	121,294,142	201,463,485	29,609,654	243,763,450	**596,130,731**
- other real estate	682,053,392	316,121,294	16,830,603	10,835,824	**1,025,841,113**
- tradable securities	114,124,732	-	-	-	**114,124,732**
- cash deposits	33,447,223	42,592,228	128,973,886	3,132,481	**208,145,818**
- machinery and equipment	119,845,225	43,267,969	48,069,510	988,263	**212,170,967**
- inventories	117,015,893	16,246,445	556,196	534,443	**134,352,977**
- receivables	26,130,137	-	-	-	**26,130,137**
- guarantees	38,384,855	19,087,018	4,711,887	25,062,044	**87,245,804**
- other assets	17,259,441	4,621,984	6,411,919	870,636	**29,163,980**
Total	**1,269,555,040**	**643,400,423**	**235,163,655**	**285,187,141**	**2,433,306,259**
Unsecured exposures	142,692,615	60,254,401	652,697,402	4,375,624	**860,020,042**
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,412,247,654**	**703,654,824**	**887,861,057**	**289,562,765**	**3,293,326,300**

12 Loans and Advances to Customers (continued)

Other assets mainly include gold and licenses. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The following table provides information on carrying value of loans, for which the Bank did not recognise any expected credit loss allowance because of significant excess of collateral value over the gross carrying value of these loans.

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Loans to corporate customers:		
Loans to Corporate	607,811,234	449,381,613
Loans to SME	347,677,015	265,337,211
Loans to individuals:		
Consumer loans	111,081,424	144,541,060
Mortgage loans	153,705,991	148,240,290
Total significantly over-collateralised loans and advances to customers carried at AC	**1,220,275,664**	**1,007,500,174**

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral on credit-impaired assets at 31 December 2020 is as follows:

	Over-collateralized assets		**Under-collateralized assets**	
In thousands of Mongolian Tugriks	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Credit impaired assets:				
Loans carried at AC:				
Corporate	222,081,376	507,198,232	184,232,373	83,543,565
SME	100,522,622	213,828,397	118,190,298	74,753,035
Consumer	6,033,221	10,814,585	104,608,807	6,578,462
Mortgage	20,199,438	36,405,950	21,981,731	15,582,589
Total	**348,836,657**	**768,247,164**	**429,013,209**	**180,457,651**

12 Loans and Advances to Customers (continued)

The effect of collateral on credit-impaired assets at 31 December 2019 is as follows:

In thousands of Mongolian Tugriks	Over-collateralized assets		Under-collateralized assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Credit impaired assets:				
Loans carried at AC:				
Corporate	142,762,443	296,313,786	109,368,253	22,644,863
SME	96,966,368	277,719,491	71,067,700	31,649,676
Consumer	2,895,502	5,218,118	46,438,443	3,844,137
Mortgage	12,642,745	25,630,125	13,656,023	10,783,749
Total	**255,267,058**	**604,881,520**	**240,530,419**	**68,922,425**

The Bank obtains collateral valuation at the time of granting loans and generally updates it every one to two years, depending on the significance of the loan exposure. The values of collateral considered in this disclosure are fair value of the collateral and the bank applies haircut of 0-100%, considering liquidity and quality of the pledged assets.

Description of collateral held for loans to corporate and individual customers carried at FVTPL is as follows at 31 December 2020 and 31 December 2019:

In thousands of Mongolian Tugriks	Mortgage	
	31 December 2020	**31 December 2019**
Loans collateralized by:		
- residential real estate	164,535,646	110,344,678
- other assets	33,962	332,223
- other real estate	848,882	139,192
Total	**165,418,490**	**110,816,093**
Unsecured exposures	-	-
Total carrying value loans and advances to customers at FVTPL (amount representing exposure to credit risk for each class of loans at FVTPL)	**165,418,490**	**110,816,093**

Other assets mainly include land. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at FVTPL, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). There are loans at FVTPL in amount of MNT 141,130,778 thousands, which are over-collateralised, and MNT 48,623,503 thousands which are under-collateralised at 31 December 2020.

12 Loans and Advances to Customers (continued)

The outstanding contractual amounts of loans and advances to customers written off in the reporting period that are still subject to enforcement activity was as follows at 31 December 2020 and 31 December 2019:

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Loans to corporate customers:		
Loans to Corporate	124,847,513	110,340,075
Loans to SME	30,922,453	20,498,090
Loans to individuals:		
Consumer loans	9,719,038	12,041,777
Mortgage loans	-	-
Total	**165,489,003**	**142,879,942**

The Bank's policy is to complete legal enforcement steps that were initiated even though the loans were written off, as there is no reasonable expectation of recovery.

Refer to Note 39 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

13 Investment Properties

Below is the information on changes in investment properties during the years ended 31 December 2020 and 31 December 2019:

In thousands of Mongolian Tugriks	Note	2020	2019
Investment properties at fair value at 1 January		**42,387,502**	**34,293,822**
Disposals		(7,454,724)	(1,179,756)
Transferred from non-current assets classified as held for sale	19	3,690,000	9,055,440
Transferred from repossessed collaterals		10,125,000	-
Transferred to premises and equipment		(3,627,173)	-
Transferred to repossessed collaterals		(3,670,046)	-
Transferred to non-current assets classified as held for sale	19	-	(3,000,000)
Fair value gain/(losses)		(1,778,646)	3,217,996
Investment properties at fair value at 31 December		**39,671,913**	**42,387,502**

The Bank's intention is to keep the premises for the purposes of earning rental income, capital appreciation, or both, and not to occupy premises by the Bank. Disposal of investment properties mainly related to sale of commercial spaces and offices in amounted to MNT 4,554,447 thousands and MNT 2,450,278 thousands respectively.

During 2020, office and commercial spaces in amount of MNT 3,627,173 thousands were transferred to premises and equipment for the purpose of occupation of the bank; and office and commercial spaces in amount of MNT 10,125,000 thousands were transferred from repossessed collaterals to investment property as the Bank's intention is to earn rental income.

Accounting policy for investment properties is disclosed in Note 4.16.

14 Other Assets

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Other financial assets at AC:		
Receivable from companies	5,201,377	10,388,560
Receivable from individuals	3,562,387	5,041,448
Receivables on cash and settlements services	942,541	2,048,296
Other financial assets	1,950,157	1,859,265
Less: Credit loss allowance	(5,537,260)	(5,724,292)
Total other financial assets at AC	**6,119,202**	**13,613,277**
Investment in investment fund	24,350,301	58,000,000
Total other financial assets	**30,469,503**	**71,613,277**
Other non-financial assets:		
Precious metals	67,896,022	67,091,760
Other non-financial assets	6,114,524	3,429,878
Prepayments for employees benefits	3,614,343	3,314,750
Prepayments for rent	500,125	516,992
Prepayment for maintenance of buildings	2,679,034	407,112
Prepayments for employees	20,164	145,886
Office materials and supplies	33,749	38,789
Other prepayments	9,938,961	12,108,554
Total non-financial assets	**90,796,922**	**87,053,721**
Total other assets	**121,266,425**	**158,666,998**

14 Other Assets (continued)

The receivables from companies and individuals decreased in 2020 as a result of the collections of receivables from prior year.

In 2013, the Government of Mongolia passed the law for investment funds to be formed. The first investment fund was subsequently established (the "Fund"). The Fund is managed by managing company domiciled in Mongolia, which is not related to the Bank's owners or management, and its main activity is making investments with funds of its customers. The Fund has operated since the special license was issued by the Financial Regulatory Commission in October 2015.

As at 31 December 2020, the Bank owned 4.17% (9.6% as at 31 December 2019) of investment units of the Fund, which invested its funds in real estate properties in early 2015. Management has assessed that it does not have control on the operating and financial decisions and activities of the Fund but exercises significant influence over the Fund through membership in the Board of Directors. For significant judgement of the management, please refer to Note 3.

Therefore, the investment in investment fund is accounted under IAS 28 as investment in associate and accounted for equity method. Please refer to Note 4 for accounting policy for investment in associate.

The decrease of the investment in associate is related to withdrawal of the investment during the year in relation to legislation requirement change.

Comparative information has been updated in line with the classification of the investment in investment fund in current year as the Bank believes that such presentation is more transparent and coherent.

Precious metals mainly consist of gold. For accounting policy of precious metals, please refer to Note 4.

14 Other Assets (continued)

Tables below contain an analysis of the credit risk exposure of other financial assets at AC at 31 December 2020.

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Receivables from companies			
- Excellent	2,472,690	-	**2,472,690**
- Satisfactory	-	-	**-**
- Special monitoring	-	-	**-**
- Default	-	2,728,687	**2,728,687**
Gross carrying amount	**2,472,690**	**2,728,687**	**5,201,377**
Less: Credit loss allowance	(3,538)	(2,728,687)	**(2,732,225)**
Carrying amount	**2,469,152**	-	**2,469,152**
Receivables from individuals			
- Excellent	802,031	-	**802,031**
- Good	60	-	**60**
- Satisfactory	-	-	**-**
- Special monitoring	2,755	-	**2,755**
- Default	-	2,757,541	**2,757,541**
Gross carrying amount	804,846	2,757,541	**3,562,387**
Less: Credit loss allowance	(45,834)	(2,758,346)	**(2,804,180)**
Carrying amount	**759,012**	**(805)**	**758,207**
Receivables on cash and settlements services			
- Excellent	941,686	-	**941,686**
- Default	-	855	**855**
Gross carrying amount	**941,686**	**855**	**942,541**
Less: Credit loss allowance	-	(855)	**(855)**
Carrying amount	**941,686**	**-**	**941,686**
Other financial asset			
- Excellent	1,950,157	-	**1,950,157**
Gross carrying amount	**1,950,157**	**-**	**1,950,157**
Less: Credit loss allowance	-	-	**-**
Carrying amount	**1,950,157**	**-**	**1,950,157**

14 Other Assets (continued)

Tables below contain an analysis of the credit risk exposure of other financial assets at AC at 31 December 2019.

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
Receivables from companies			
- Excellent	7,537,685	-	**7,537,685**
- Good	400	-	**400**
- Satisfactory	1,226	-	**1,226**
- Default	-	2,849,249	**2,849,249**
Gross carrying amount	**7,539,311**	**2,849,249**	**10,388,560**
Less: Credit loss allowance	(32,641)	(2,849,249)	**(2,881,890)**
Carrying amount	**7,506,670**	**-**	**7,506,670**
Receivables from individuals			
- Excellent	2,208,280	-	**2,208,280**
- Good	125	-	**125**
- Satisfactory	4,773	-	**4,773**
- Special monitoring	2,113	-	**2,113**
- Default	-	2,826,157	**2,826,157**
Gross carrying amount	**2,215,291**	**2,826,157**	**5,041,448**
Less: Credit loss allowance	(15,424)	(2,826,157)	**(2,841,581)**
Carrying amount	**2,199,867**	**-**	**2,199,867**
Receivables on cash and settlements services			
- Excellent	2,047,476	-	**2,047,476**
- Default	-	820	**820**
Gross carrying amount	**2,047,476**	**820**	**2,048,296**
Less: Credit loss allowance	-	(820)	**(820)**
Carrying amount	**2,047,476**	**-**	**2,047,476**
Other financial asset			
- Excellent	1,859,265	-	**1,859,265**
Gross carrying amount	**1,859,265**	**-**	**1,859,265**
Less: Credit loss allowance	-	-	**-**
Carrying amount	**1,859,265**	**-**	**1,859,265**

14 Other Assets (continued)

Movements in the provision for asset impairment during 2020 are as follows:

In thousands of Mongolian Tugriks	Receivable from companies	Receivable from individuals	Other financial assets	Total
Provision for asset impairment at 1 January 2020	**2,881,890**	**2,841,582**	**820**	**5,724,292**
Provision/(reversal) for impairment during the year	675,270	86,306	-	**761,576**
Exchange difference	19,150	57,982	35	**77,167**
Amounts written off during the year as uncollectible	(844,085)	(181,690)	-	**(1,025,775)**
Provision for asset impairment at 31 December 2020	**2,732,224**	**2,804,180**	**855**	**5,537,260**

The receivables that is not expected to be fully paid are written off in accordance with the Board of Directors' resolution during 2020.

Movements in the provision for asset impairment during 2019 are as follows:

In thousands of Mongolian Tugriks	Receivable from companies	Receivable from individuals	Other financial assets	Total
Provision for asset impairment at 1 January 2019	**5,403,448**	**2,854,230**	**-**	**8,257,678**
Provision/(reversal) for impairment during the year	2,492,716	195,697	820	**2,689,233**
Exchange difference	453,842	7,486	-	**461,328**
Amounts written off during the year as uncollectible	(5,468,116)	(215,831)	-	**(5,683,947)**
Provision for asset impairment at 31 December 2019	**2,881,890**	**2,841,582**	**820**	**5,724,292**

15 Intangible Assets

In thousands of Mongolian Tugriks	**Computer software licences**	**Land use right**	**Total**
Cost at 1 January 2019	**29,330,501**	**673,313**	**30,003,814**
Accumulated amortization	(15,753,488)	-	**(15,753,488)**
Carrying amount at 1 January 2019	**13,577,013**	**673,313**	**14,250,326**
Additions	2,980,195	-	**2,980,195**
Transfers	-	-	**-**
Amortisation	(2,860,510)	-	**(2,860,510)**
Carrying amount at 31 December 2019	**13,696,698**	**673,313**	**14,370,011**
Cost at 1 January 2020	**32,310,696**	**673,313**	**32,984,009**
Accumulated amortization	(18,613,998)	-	(18,613,998)
Carrying amount at 1 January 2020	**13,696,698**	**673,313**	**14,370,011**
Additions	5,311,699	-	5,311,699
Transfers	373,320	-	373,320
Amortisation	(3,300,686)	-	(3,300,686)
Carrying amount at 31 December 2020	**16,081,031**	**673,313**	**16,754,344**

16 Premises and Equipment

In thousands of Mongolian Tugriks	Premises	Motor vehicles	Office equipment and computers	Furniture	Leasehold im-provement	Construction in progress	Total premises and equipment
Cost/valuation at 1 January 2019	**102,748,431**	**3,028,891**	**48,666,197**	**7,465,253**	**4,537,864**	**4,992,051**	**171,438,687**
Accumulated depreciation	(2,160,384)	(1,442,945)	(33,337,813)	(2,837,590)	(1,569,708)	-	**(41,348,440)**
Carrying amount at 1 January 2019	**100,588,047**	**1,585,946**	**15,328,384**	**4,627,663**	**2,968,156**	**4,992,051**	**130,090,247**
Additions	3,740,861	731,500	23,781,906	675,861	2,395,262	-	**31,325,390**
Transfers	-	(1,115)	4,309,290	33,422	-	(4,341,597)	**-**
Disposals	-	(121,986)	(177,242)	(20,414)	-	-	**(319,642)**
Write-offs	-	(397,228)	(2,354,793)	(239,793)	-	-	**(2,991,814)**
Charge for the year	(2,907,744)	(305,640)	(8,145,581)	(470,859)	(2,185,692)	-	**(14,015,516)**
Transfers	-	93	(4,797)	4,588	116	-	**-**
Disposals	-	80,332	177,242	16,386	-	-	**273,960**
Write-offs	-	384,600	1,531,472	228,029	-	-	**2,144,101**
Revaluation	1,242,104	-	-	-	-	-	**1,242,104**
Carrying amount at 31 December 2019	**102,663,268**	**1,956,502**	**34,445,881**	**4,854,883**	**3,177,842**	**650,454**	**147,748,830**
Cost/valuation at 1 January 2020	**107,731,396**	**3,240,062**	**74,225,358**	**7,914,329**	**6,933,126**	**650,454**	**200,694,725**
Accumulated depreciation	(5,068,128)	(1,283,560)	(39,779,477)	(3,059,446)	(3,755,284)	-	**(52,945,895)**
Carrying amount at 1 January 2020	**102,663,268**	**1,956,502**	**34,445,881**	**4,854,883**	**3,177,842**	**650,454**	**147,748,830**
Additions	4,259,824	65,000	6,832,365	438,605	992,525	-	**12,588,319**
Transfers	3,096,464	(32,954)	(294,603)	24,677	90	-	**2,793,674**
Disposals	(3,305,473)	-	(214,837)	(6,068)	-	-	**(3,526,378)**
Write-offs	-	-	(2,565,613)	(149,334)	(1,455,789)	-	**(4,170,736)**
Charge for the year	(3,031,063)	(316,976)	(10,849,388)	(473,959)	(1,316,560)	-	**(15,987,946)**
Transfers	530,707	29,483	(122,798)	(11,306)	-	-	**426,086**
Disposals	79,218	-	207,870	5,757	-	-	**292,845**
Write-offs	-	-	2,552,945	148,179	1,269,638	-	**3,970,762**
Revaluation	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amount at 31 December 2020	**104,292,945**	**1,701,055**	**29,991,822**	**4,831,434**	**2,667,746**	**650,454**	**144,135,456**

16 Premises and Equipment (continued)

Premises have been revalued at fair value as at 31 December 2020. The valuation was carried out by an independent firm of appraisers, M.A.D LLC and Gerege Estimate LLC, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category. The basis used for the appraisal was market value of the similar premises located in the Ulaanbaatar.

At 31 December 2020, the carrying amount of premises would have been MNT 97,048,529 thousands (2019: MNT 110,059,260 thousands) had the assets been carried at cost less depreciation.

The amount reconciles to the carrying value of the premises as follows:

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Premises at revalued amount in the statement of financial position	104,292,945	102,663,268
Revaluation reserve presented in equity	(7,495,543)	7,746,670
Realised revaluation reserve	251,127	(350,676)
Premises at cost less accumulated depreciation	**97,048,529**	**110,059,262**

Refer to Note 39 for the disclosure for inputs and model used to determine fair value and its sensitivity analysis.

17 Right of Use Assets

The Bank leases various offices and spaces for ATM, garages and archives. Rental contracts are typically made for fixed periods of 1 year to 5 years but may have extension options as described below.

The right of use assets by class of underlying items is analysed as follows:

In thousands of Mongolian Tugriks	**Buildings**	**Other**	**Total**
Carrying amount at 1 January 2019	**7,422,405**	**1,512**	**7,423,917**
Additions	2,582,021	3,123	**2,585,144**
Depreciation charge	(3,744,907)	(1,404)	**(3,746,311)**
Carrying amount at 31 December 2019	**6,259,519**	**3,231**	**6,262,750**
Additions	6,211,715	3,532,106	**9,743,821**
Disposals	(1,217,928)	-	**(1,217,928)**
Depreciation charge	(4,178,546)	(727,361)	**(4,905,907)**
Carrying amount at 31 December 2020	**7,074,760**	**2,807,976**	**9,882,736**

As of 31 December 2020, interest expense on lease liabilities was MNT 1,385,422 thousands (2019: MNT 851,077 thousands) and lease expense related to VAT was MNT 535,954 thousands (2019: MNT 312,608 thousands).

17 Right of Use Assets (continued)

Expenses relating to short-term leases included in administrative and other operating expenses.

In thousands of Mongolian Tugriks	**2020**	**2019**
Expense relating to short-term leases	2,039,348	2,689,548

Total cash outflow for leases in 2020 was MNT 7,857,624 thousands (2019: MNT 7,299,303 thousands)

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

Extension and termination options are included in a number of property leases across the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

18 Repossessed Collateral

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Financial asset at fair value	121,292,776	131,581,132
Non-financial assets at cost	129,006,234	25,814,241
Less: Impairment provision	(39,722,685)	(6,077,773)
Total repossessed collaterals	**210,576,325**	**151,317,600**

Repossessed collateral represents real estate assets and financial assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. In case of repossessed collateral in the form of financial asset such as equity securities, Bank classifies them for IFRS measurement purposes as investments in equity or debt securities and measures them at fair value. The assets were initially recognised at fair value less cost to sell when acquired.

During 2020, the Bank recognised MNT 95,255,910 thousands (2019: MNT 126,392,250 thousands) repossessed collateral through foreclosure process and reclassified assets in value of MNT 51,259,434 thousands (2019: MNT 75,217,941 thousands) to Non-Current Assets classified as Held for Sale, following the management's intentions in relation to those assets.

During the year, MNT 55,321,505 thousands of assets were transferred from Non-Current Assets classified as Held for Sale to repossessed collateral.

Financial assets at fair value as of 31 December 2020 represent shares (equity securities) in three companies which the Bank has acquired in the process of settlement of overdue loans. The Bank is currently negotiating to sell shares of one of these three companies. In 2020, fair value loss of those assets was MNT 16,288,356 thousands.

Non-financial assets at cost represent premises, which the Bank has acquired in the process of settlement of overdue loans. The impairment provision disclosed above fully relates to non-financial assets. For the accounting policy applied refer to Note 4.30.

18 Repossessed Collateral (continued)

Movements in the provision for repossessed non-financial collaterals during 2020 and 2019 are as follows:

In thousands of Mongolian Tugriks	2020	2019
Provision for repossessed collaterals at 1 January	**6,077,773**	**8,134,870**
Provision for impairment during the year	21,888,296	13,134,432
Provision of assets transferred to investment property	(1,978,658)	-
Provision of assets transferred from non-current assets held for sale	13,735,274	290,376
Amounts written off during the year as uncollectible	-	(15,481,905)
Provision for repossessed collaterals at 31 December	**39,722,685**	**6,077,773**

Significant increase in provision for repossessed collateral mainly relates to the buildings, factory and apartments.

19 Non-Current Assets Classified as Held for Sale

Non-current assets classified as held for sale were previously classified as repossessed collateral, acquired by the Bank in settlement of overdue loans. Management approved a plan to sell non-current assets on each transfer of asset. The Bank is actively marketing these assets and expects the sale to complete within 12 months. Further accounting policies of non-current assets classified as held for sale is disclosed in Note 4.11.

Major classes of non-current assets classified as held for sale are as follows:

In thousands of Mongolian Tugriks	31 December 2020	31 December 2019
Office and commercial spaces	14,741,413	16,942,504
Buildings	10,991,262	3,000,000
Residential apartments or houses	1,047,145	37,137,820
Other	204,156	45,000
Total non-current assets held for sale	**26,983,976**	**57,125,324**

During 2020, the Bank sold offices, commercial spaces and residential apartments in amount of MNT 16,299,755 thousand.

20 Due to Other Banks

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Short-term placements of other banks	14,638,962	20,070,762
Long-term placements of other banks	-	32,857,750
Total due to other banks	**14,638,962**	**52,928,512**

Amount due to other banks and financial institutions represent foreign currency and local currency accounts and time deposits placed with Mongolian and foreign banks. The decrease in amounts of due to other banks mainly relates to expiration of long term placements from a Development bank of Mongolia and Bogd bank.

At 31 December 2020, short-term placement relates to current accounts and demand deposit from local and foreign banks with interest rate of 2% (2019: from 6.8% p.a. to 12% p.a.).

Refer to Note 39 for the disclosure of the fair value of each class of due to other banks. Currency, interest rate and maturity analysis of due to other banks are disclosed in Note 35.

21 Customer Accounts

In thousands of Mongolian Tugriks	31 December 2020	31 December 2019
Individuals	**3,085,685,582**	**2,683,544,463**
- Current/demand accounts	259,533,209	205,586,435
- Demand deposits	542,637,015	433,531,162
- Term deposits	2,283,515,358	2,044,426,866
Legal entities	**1,808,539,526**	**1,415,945,338**
- Current/settlement accounts	1,072,214,508	1,001,280,367
- Demand deposits	319,624,716	59,107,295
- Term deposits	416,700,302	355,557,676
State and public organizations	**325,361,021**	**749,455,811**
- Current/settlement accounts	70,395,910	598,852,742
- Demand deposits	184,537,147	26,940,128
- Term deposits	70,427,964	123,662,941
Other	**66,089,048**	**51,696,010**
- Current/demand accounts	41,513,031	33,757,181
- Demand deposits	696,098	858,825
- Term deposits	23,879,919	17,080,004
Total customer accounts	**5,285,675,177**	**4,900,641,622**

According to the Mongolian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate paid by the Bank on demand deposits unless otherwise specified by the contract.

The management currently does not monitor concentration of customer accounts per economic sectors. Therefore, related information is not disclosed in these financial statements. At 31 December 2020, the aggregate amount of the top 30 biggest customers is MNT 1,162,976,433 thousands (31 December 2019: MNT 1,457,335,939 thousands) or 22% of total customer accounts (31 December 2019: 30%).

At 31 December 2020, included in customer accounts are deposits of MNT 52,103,068 thousands (2019: MNT 30,671,623 thousands) held as collateral for irrevocable commitments under bank guarantee.

Interest rate analysis of customer accounts is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

22 Other Borrowed Funds

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
(a) Borrowed funds under projects		
Borrowed funds under Project /MNT/	214,051,054	228,664,832
Borrowed funds under Project /USD/	275,262	307,940
Borrowed funds under Project /EUR/	93	180,286
Total borrowed funds under projects	**214,326,409**	**229,153,058**
(b) Borrowings from foreign banks and financial institutions		
Borrowings from other foreign bank /USD/	931,920,970	538,666,774
Trade finance from foreign banks and financial institutions		
Trade finance from foreign banks and financial institutions /USD/	33,020,956	109,553,747
Trade finance from foreign banks and financial institutions /EUR/	21,165,174	35,429,480
Trade finance from foreign banks and financial institutions /JPY/	-	2,110,565
Trade finance from foreign banks and financial institutions /CNY/	1,831,140	1,118,538
Total borrowings from foreign banks and financial institutions	**987,938,240**	**686,879,104**
TOTAL	**1,202,264,649**	**916,032,162**

(a) Borrowed funds under projects

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Government price stabilization program		
Housing mortgage program	119,388,583	132,474,795
Project on gold production 2	10,067,210	-
Project loan of KFW bank	1,559,720	851,287
Other borrowing under project	937,500	1,320,500
Projects financed by Development Bank of Mongolia		
Project on national cashmere factories	37,898,469	42,886,928
Agriculture 2020 program	5,944,070	-
MNCCI leather processing project	202,196	5,385,350
Project on meat production	-	2,905,297
Other borrowing under project	-	1,425,390
Joint projects of Mongolian government and JICA		
Borrowings under SME industry support fund	7,594,175	9,921,098
Other government projects		
Borrowings under Agriculture and Rural Development Project	30,418,429	29,963,289
Other borrowing under project	275,262	307,940
Student development program	37,511	53,158
Borrowings under SME industry support fund	3,284	1,652,842
Borrowings under 40000 Housing Unit Development program	-	5,184
Total	**214,326,409**	**229,153,058**

As disclosed in Note 3, most of these funds are obtained for specific purposes (issuing loans at advantageous rates to target customers), defined by the lenders or the Government of Mongolia, and therefore they are obtained at interest rates which may be lower than rates at which the Bank could source the funds from other lenders. Interest rate on most of these borrowed funds ranges between 1% to 10.5% p.a., while interest rate on most of the loans issued from these sources range between 3% and 13% p.a. The management considered whether initial gain on recognition of these borrowings should be recognised and concluded that they meet definition of principal market and that no gains or losses should arise on initial recognition of related borrowings and loans to customers.

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

For management's judgments refer to Note 3. The major programs include funding from the Development Bank of Mongolia on funding specific sectors or types of projects that are related to key priorities for development of Mongolian economy (e.g. achieving diversification of economy) by the Government of Mongolia. These programs are briefly outlined below.

Under *Housing Mortgage Program*, the Bank received funds during 2014, 2015 and 2016 from the Bank of Mongolia for a mortgage loan program implemented by the Government at an interest rate of 4% p.a. Newly issued loans or refinanced loans need to meet specific requirements (apartments with maximum area of 80 square meters, down payment of at least 30% apartment purchase price, good customer's credit history with respective bank and other Mongolian banks etc.) in order to qualify for this program.

In 2016, the Bank received borrowings from Asian Development Bank at an interest rate of 4.5% p.a. The project purpose is to support agriculture and rural development project. The program was extended until 2027. The bank can grant loans with the interest rate of 8%. The Bank approves all loan disbursement or refinancing and bears the credit risk.

As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates of 8% p.a. (6% for loans issued after 1 October 2020) defined by the Bank of Mongolia i.e. the Bank has no discretionary rights in determining interest rates on issued loans. The Bank approves all loans disbursement or refinancing under 8% (6% for loans issued after 1 October 2020) interest rate and bears the credit risk.

In 2018, the Bank participated in the Government program to support the national cashmere factories for providing below market working capital loan to produce raw materials through Development Bank of Mongolia and the interest rate of the funding is 10% p.a. with maturity date of 27 December 2021. The Bank can grant loans to the customers at advantageous interest rate of 12%-13% p.a.

Since July 2014, the Bank participates in another Government project targeting specific industry, "Manufacturing and Processing of Leather Products (MNCCI)" with Development Bank of Mongolia. Related funding from the DBM is obtained at interest rate of 5% p.a. and related loans are issued to customers at advantageous interest rates of 7% p.a., as per terms of the arrangement. All customers must be approved by Ministry of Food and Agriculture. The Bank bears the credit risk in this arrangement.

In 2020, the Bank participated in two new programs. The program funded by Bank of Mongolia is for financing gold mining companies to increase the gold reserves and foreign exchange reserve of Bank of Mongolia. Under this program, the Bank obtained funding at interest rates of 9% p.a. with maturity date of 02 September 2021 and issued loans to mining companies at advantageous interest rate of 12% p.a.

Furthermore, the Bank participates in another program, Agriculture 2020, funded by Development Bank of Mongolia to support planting companies and individuals to stabilize the price of food and increase the stock of food. As a part of this arrangement, the Bank received funding at interest rate of 1% p.a. with maturity of one year. The Bank can issue loans to customers at advantageous interest rate of 3% p.a.

The Bank participates in the Government program of providing loans to individuals for purchasing apartments and providing financing to housing construction companies. As a part of this arrangement, the Bank received funding at interest rate of 7% p.a. with maturity of 10 years and interest rate on is-sued loan of 11% p.a., which represent advantageous interest rates. During 2020, the programs have ended as per the terms of the agreement. The Bank has fully repaid all of outstanding amounts within these programs.

Furthermore, within the Development bank of Mongolia project to support the expansion of meat processing in Mongolia, the Bank entered into an arrangement with the DBM on financing those companies which operates in related industry. The funding bears interest rate of 13.2% p.a. with maturity date of 28 February 2020. The Bank has discretionary rights to determine the interest rate up to 17.2% p.a., at which the loans are issued to the targeted customers. During 2020, the programs have ended as per the terms of the agreement. The Bank has fully repaid all of outstanding amounts within these programs.

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

The terms of the borrowing agreements with government organizations, central bank, and international financial institutions are provided in below table.

Category	Funding source	Name of Project	Currency	Disburse-ment date	Maturity date	Principle balance as of 31 December 2020 in thousands of original currency	Principle balance as of 31 December 2020 in thousands of MNT
Govern-ment price sta-bilization program	Bank of Mongolia	Housing mortgage program	MNT	4/21/2016	12/15/2021	119,388,583	119,388,583
	Bank of Mongolia	Project on gold production 2	MNT	8/7/2020	9/2/2022	10,067,211	10,067,211
	Bank of Mongolia	Project loan of KFB bank	MNT	6/8/2012	6/25/2025	1,559,627	1,559,720
	Bank of Mongolia	Other borrowing under project	MNT	7/1/2020	7/1/2022	937,500	937,500
Projects financed by Develop-ment Bank of Mongolia	Development Bank of Mongolia	Project on national cashmere factories	MNT	6/28/2018	12/27/2021	37,898,469	37,898,469
	Development Bank of Mongolia	Agriculture 2020 program	MNT	9/17/2020	12/17/2021	5,944,070	5,944,070
	Development Bank of Mongolia	MNCCI leather processing project	MNT	5/9/2014	6/25/2021	202,196	202,196
Joint projects of Mongolian gov-ernment and JICA	JICA	Borrowings under SME industry support fund	MNT	6/12/2009	10/1/2030	7,594,175	7,594,175
Other govern-ment pro-jects	Government and ADB	Borrowings under Agriculture and Rural Devel-opment Project	MNT	5/5/2016	7/1/2027	30,418,429	30,418,429
	Government	Student development program	MNT	11/30/2016	11/30/2026	37,511	37,511
	Government	Borrowings under SME industry support fund	MNT	7/10/2012	1/10/2021	3,284	3,284
	Government	Other borrowing under project	USD	4/1/2010	5/1/2027	97	275,262

22 Other Borrowed Funds (continued)

(a) Borrowings from foreign banks and financial institutions

Borrowings from other foreign bank represent loans obtained from foreign banks and financial institution in the amount of USD 100,000 thousands on 27 September 2018, USD 100,000 thousands on 28 March 2019 with maturities of 60 months and amount of USD 7,500 has borrowed on 26 September 2017 with maturity of 97 months.

During 2020, several borrowings have obtained including amount of USD 100,000 thousands on 17 June 2020 with maturities of 60 months, amount of USD 19,000 thousands on 28 July 2020 with maturities of 15 months, amount of USD 5,500 thousands on 14 December 2020 with maturities of 13 months and amount of USD 5,000 thousands on 04 September 2020 with maturities of 36 months.

USD 305,000 thousands of those borrowings are collateralized by the Bank's current account at these banks (refer to Note 9).

The Bank obtained uncommitted revolving trade credit lines from international banks and financial institutions to fund its trade loans to customers. As of 31 December 2020 the Bank utilised MNT 106,120,996 thousands (31 December 2019: MNT 100,102,203 thousands) of related credit lines and issued loans for the same amount. International banks and financial institutions for the purpose of import financing of transactions of customers provide funding. The term of such funding is up to 2 years and cash flows from customers and payment to foreign banks are matching in terms of the timing of payment and principal amount. The Bank bears the credit risk in the case of non-payment by the customer.

As at 31 December 2020, the Bank has breached a covenant, non-performing loans ratio which was related to a borrowings from Asian Development Bank (ADB) on financing under Agriculture and Rural Development Project in the amount of MNT 30,418,429 thousands. According to the contract between the Bank and ADB, only when ADB concludes that the bank has significantly breached any contract obligation, the loan becomes payable on demand. For the breach of the covenant, ADB concluded this to be insignificant and did not to recall the loan.

Refer to Note 39 for the disclosure of fair value of other borrowed funds. Currency, interest rate and maturity analysis of other borrowed funds are disclosed in Note 35.

23 REPO Arrangements

As of 31 December 2020, sale and repurchase agreements relate to placements from local banks and financial institutions, bearing interest rate of 6.5% p.a. (2019: from 11.0% p.a), with original maturities of 723 days (2019: 28 days). These placements are fully collateralized by the Bank of Mongolia treasury bills disclosed in Note 10 as at 31 December 2020.

24 Other Liabilities

Other liabilities comprise the following:

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Other financial liabilities at AC:	**89,831,222**	**102,064,978**
Liabilities for loans sold to MIK with recourse	53,003,378	71,974,148
Liabilities for settlements of transactions	19,134,868	20,171,704
Provision for credit related commitments	2,897,006	1,937,760
Trade payable	1,529,535	1,955,831
Other	13,266,435	6,025,535
Other non-financial liabilities:	**10,965,323**	**4,091,161**
Taxes payable other than on income	9,236,305	2,521,925
Payables to employees	1,642,622	1,430,948
Other	86,396	138,288
Total other liabilities	**100,796,545**	**106,156,139**

24 Other Liabilities (continued)

During 2020, the Bank has not participated any of monetization transactions with MIK for selling of mortgage loans with recourse. The balance in other liability as of 31 December 2020 has decreased by the repayments of related loans. The Bank retained all the risks and rewards related to the loans sold to MIK within these transactions.

The increased amount of taxes payable other than on income relates to introduction of new revised Corporate Income Tax Law which became effective since 1 January 2020. The balance of taxes payable other than on income as of 31 December 2020 has increased due to the new legal provision of levying tax on interest income of all types of debt, payables, current and savings accounts, guarantees, sureties, loans and bond etc.

The Bank received deferred income of MNT 86,396 thousands from consulting service. According to the IFRS 15, the Bank allocates the transaction price of consulting service to each performance obligation.

Most of the other financial liabilities are expected to be settled within twelve months after the year-end. All non-financial liabilities are of a short-term nature.

25 Subordinated Debt

In thousands of Mongolian Tugriks	**31 December 2020**	**31 December 2019**
Subordinated loans from Golomt Financial Group	-	172,027,616
Total	**-**	**172,027,616**

Subordinated loans as of the year ended 31 December 2019 were as follows:

In thousands of Mongolian Tugriks	**Maturity date**	**Currency**	**Interest rate p.a.**	**Face value in currency**
Golomt Financial Group LLC (I)	31/12/2024	MNT	12.6%	80,000,000
Golomt Financial Group LLC (II)	31/12/2024	MNT	12.6%	80,000,000
Golomt Financial Group LLC (III)	31/12/2024	MNT	12.6%	12,000,000

The Bank received a MNT 160 billion, 5-year subordinated loan from Golomt Financial Group LLC in 31 December 2019 with interest rate of 12.6% per annum maturing on 31 December 2024. Also, the Bank received a MNT 12 billion, 5-year subordinated loan with same interest rate as the previous loan from Golomt Financial Group LLC on19 December 2019.

These subordinated debts were initially funded by shareholders with an intention of equity injection during 2019. In December 2020, the Bank converted total of MNT 172,000,000 thousand subordinated debt from Golomt Financial Group into ordinary shares of the Bank. (See note 26). The accrued interest related to subordinated debt was fully paid to Golomt Financial Group LLC.

None of the subordinated debt agreements had financial or other covenants as of 31 December 2019. Information on related party balances is disclosed in Note 41.

26 Share Capital

In thousands of Mongolian Tugriks except for number of shares	Number of outstanding shares	Ordinary shares	Treasury shares	Share premium	Preference shares	Treasury preferred shares	Total
At 1 January 2019	**32,321,857**	**32,321,857**	**-**	**127,629,293**	**75,778,900**	**-**	**235,730,050**
Cancelation of share issue	(5,954,264)	(5,954,264)	-	(81,045,736)	(50,000,000)	-	**(137,000,000)**
Conversion of the subordinated loans	5,646,905	5,646,905	-	88,588,145	-	-	**94,235,050**
At 31 December 2019	**32,014,498**	**32,014,498**	**-**	**135,171,702**	**25,778,900**	**-**	**192,965,100**
At 1 January 2020	**32,014,498**	**32,014,498**	**-**	**135,171,702**	**25,778,900**	**-**	**192,965,100**
Treasury stocks	(80,500)	-	(80,500)	(981,508)	-	(13,511,650)	**(14,573,658)**
Conversion of the subordinated loans	10,225,539	10,225,539	-	161,774,461	-	-	**172,000,000**
At 31 December 2020	**42,159,537**	**42,240,037**	**(80,500)**	**295,964,655**	**25,778,900**	**(13,511,650)**	**350,391,442**

The nominal registered amount of the Bank’s issued share capital is MNT 42,159,537 thousands (2019: MNT 32,014,498 thousands).

Share premium represents the excess of contributions received over the nominal value of shares issued.

The number of ordinary shares issued in 2020 was 10,225,539 with par value MNT 1,000 and share premium represents the excess of contributions received over the nominal value of shares issued.

Ordinary shares

The total authorised number of ordinary shares is 42,159,537 shares (31 December 2019: 32,014,498 shares), with a par value of MNT 1,000 per share (2019: MNT 1,000 per share).

The following table shows issued and reacquired shares during 2020:

Shareholder	Number of shares	Par amount	Subscription price per share	Date
Golomt Financial Group LLC	10,225,539	1,000	16,821	12/30/2020
ESOP	(80,500)	1,000	13,193	9/16/2020

On 30 December 2020, Subordinated loan from Golomt Financial Group LLC in the amount of MNT 172 billion was converted into ordinary shares and 10,225,539 fully paid shares of the Bank were issued to Golomt Financial Group LLC. The amount of MNT 161,774,461 thousand arising from the issuance of ordinary shares has been included in the share premium account. The new ordinary shares issued rank pari passu in all respect with the existing ordinary shares of the bank.

In 2020, with a decision of shareholders meeting, 80,500 ordinary shares issued under the Employees' Share Ownership Program were repurchased for MNT 13,192.65 per share.

26 Share Capital (continued)

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

Shareholder	**31 December 2020**	**31 December 2019**
	Ownership (%)	**Ownership (%)**
Golomt Financial Group LLC	90.47%	86.63%
Swiss-Mo Investment A.G	6.25%	8.22%
Golomt Investment Co.,Ltd	3.08%	4.06%
ESOP	0.20%	1.09%
Total	**100%**	**100%**

Preferred shares

Mr.Zorigt, a business partner of Mr.Bayasgalan, holds 25,778,900 preferred shares with USD 15,000,000, which is equivalent to MNT 25,778,900 thousands issued on 19 December 2013 and terms are further amended on 26 December 2013. Preferred shareholders have a right to receive dividend income of 6% from its investment. Preferred shareholders have a priority right over ordinary share holders in case of liquidation.

In 2020, with a decision of shareholders meeting to purchase back its own preferred shares, 9,390,800 treasury preferred shares were reacquired at a price of MNT 1,438.82 per share.

27 Interest Income and Expense

In thousands of Mongolian Tugriks	**2020**	**2019**
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	477,412,592	470,513,477
Debt securities FVTOCI	36,740,081	41,537,995
Due from other banks at AC	22,218,950	20,652,385
Cash and cash equivalents	13,921,180	18,536,242
Debt securities at AC	1,308,470	5,138,380
Reverse repurchase agreements at AC	280,514	579,119
Total interest income calculated using the effective interest method	**551,881,787**	**556,957,598**
Other similar income		
Loans and advances to customers at FVTPL	6,387,102	10,475,532
Debt securities FVTPL	11,863,497	10,458,601
Total other similar income	**18,250,599**	**20,934,133**
Total interest income	**570,132,386**	**577,891,731**
Interest expense		
Customer accounts	(301,275,891)	(309,233,601)
Other borrowed funds	(38,491,510)	(39,129,879)
Subordinated loans	(21,612,625)	(6,259,246)
Due to other banks	(977,854)	(5,593,306)
Repurchase agreements	(2,036,363)	(4,939,558)
Total interest expense	**(364,394,243)**	**(365,155,590)**
Other similar expense		
Lease expense	(1,385,422)	(851,077)
Total other similar expense	**(1,385,422)**	**(851,077)**
Total interest and other similar expense	**(365,779,665)**	**(366,006,667)**
Net interest income	**204,352,721**	**211,885,064**

Interest income from cash and balances with central bank includes MNT 9,358,409 thousands (2019: MNT 14,047,899 thousands), which relates to interest income on placed mandatory reserves received from the Bank of Mongolia based on the resolution of the Bank of Mongolia applicable to all local banks, as the Bank maintained the required level of mandatory reserve during 2020.

Interest expenses of subordinated loans have increased due to the addition of subordinated loans in total amount of MNT 160,000,000 thousands in late December 2019. Decrease in interest expense on due to other banks is related to long term placements from Development bank of Mongolia and Bogd bank which have expired during the year. Interest income includes approximately MNT 15,610,229 thousands (2019: MNT 9,429,322 thousands) of interest income, recognised on credit impaired loans to customers.

27 Interest Income and Expense (continued)

Management believes that related amounts are fully recoverable, given that impaired loans and advances to customers have high collateral coverage and that non-recoverable amount of interest income is not recognised in the profit or loss account for 2020 and 2019 in accordance with IFRS requirements.

28 Fee and Commission Income and Expense

In thousands of Mongolian Tugriks	**2020**	**2019**
Fee and commission income		
Commissions on operations with plastic cards	25,937,813	30,182,400
Remittance and other service fees	13,432,640	14,782,946
Commissions on documentary business and guarantees	5,550,921	5,236,275
Account service fee and commissions	3,779,078	4,108,079
Brokerage and other service fee	377,116	788,642
Total fee and commission income	**49,077,568**	**55,098,342**
Fee and commission expense		
Card transaction expense	(11,560,522)	(13,044,239)
Bank service expense	(2,879,959)	(2,646,484)
Online transaction expense	(1,111,910)	(855,456)
Brokerage and other service fee	(43,333)	(548,149)
Total fee and commission expense	**(15,595,724)**	**(17,094,328)**
Net fee and commission income	**33,481,844**	**38,004,014**

29 Other Operating Income and Expenses

In thousands of Mongolian Tugriks	**2020**	**2019**
Income from repayment of loans which were written off	1,846,809	1,753,453
Gain or loss on disposal of premises and equipment	(330,660)	(1,536,773)
Other	1,401,888	807,504
Total other operating income	**2,918,037**	**1,024,184**

30 Administrative and Other Operating Expenses

In thousands of Mongolian Tugriks	Note	2020	2019
Staff costs		41,298,424	47,180,146
Information, consulting and other professional services		28,214,327	24,467,538
Depreciation of premises and equipment	16	15,987,946	14,015,516
Advertising and marketing services		3,691,587	4,596,148
Telecommunications expense		1,511,093	4,214,423
Depreciation of right of use assets	17	4,905,907	3,746,311
Amortisation of software and other intangible assets	15	3,300,686	2,860,510
Short term lease expense		2,039,348	2,689,548
Taxes (other than income tax)		1,996,394	2,049,702
Security expense		2,162,967	1,827,825
Loan collection expenses		1,710,913	1,728,379
Transportation		1,170,044	1,413,818
Utilities		1,256,955	1,216,332
Travelling expenses		426,321	1,124,938
Voluntary and mandatory insurance		618,156	745,739
Entertainment		920,460	689,375
Donations		11,126	20,771
Other		9,791,930	7,418,811
Total administrative and other operating expenses		**121,014,584**	**122,005,830**

In thousands of Mongolian Tugriks	2020	2019
Staff costs consist of:		
Salaries, wages and bonus	38,388,570	40,489,040
Contribution to social and health fund	1,974,054	5,226,212
Staff benefits	521,645	643,356
Pension fund	219,093	198,147
Staff training	195,062	623,391
Total staff costs	**41,298,424**	**47,180,146**

31 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Mongolian Tugriks	2020	2019
Current tax	624,052	11,756,755
Deferred tax	11,471,208	(3,166,529)
Income tax expense for the year	**12,095,260**	**8,590,226**

31 Income Taxes (continued)

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The Bank provides for income taxes on the basis of 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% 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) in accordance with Mongolian tax legislation.

In thousands of Mongolian Tugriks	**2020**	**2019**
Profit before tax	**22,489,020**	**24,894,906**
Theoretical tax charge at statutory rate (2020: 25%; 2019: 25%)	5,622,255	6,223,727
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Effect of income subject to lower rate	(900,000)	(450,000)
- Income which is exempt from taxation	(1,247,957)	(565,048)
- Income which is taxed at different rates	649,048	(24,044)
- Non-deductible expenses	4,220,121	3,004,994
- Unrecoverable deferred tax asset	2,572,089	-
- Other	1,179,704	400,597
Income tax expense/(credit) for the year	**12,095,260**	**8,590,226**

31 Income Taxes (continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of the movements in these temporary differences in 2020 is detailed below and is recorded at the rate of 25%:

In thousands of Mongolian Tugriks	**1 January 2020**	**Credited/ (charged) to profit or loss**	**Charged directly to equity**	**31 December 2020**
Tax effect of deductible / (taxable) temporary differences and tax loss carry forwards:				
Loans and advances to customers - interest income on loans overdue more than 90 days	(8,382,130)	(3,440,232)	-	**(11,822,362)**
Fair valuation of securities at FVTPL	(1,388,575)	47,712	-	**(1,340,863)**
Fair valuation of equity securities at FVTOCI	5,263,819	-	(976,416)	**4,287,403**
Credit loss allowance of securities at AC and FVTOCI	58,673	633,418	-	**692,091**
Credit loss allowance of due from other banks	209,850	(148,655)	-	**61,195**
Fair value changes of derivative financial instruments	(28,541,465)	(10,392,201)	-	**(38,933,666)**
Loan and advances to customers	9,612,004	(5,887,986)	-	**3,724,018**
Prepaid income – loan origination fee and others	2,363,856	(57,764)	-	**2,306,092**
Impairment of buildings	10,728,578	(534,825)	-	**10,193,753**
Provision charge for repossessed collateral, gains less losses on revaluation of investment properties and provision for non-current asset held for sale	3,431,521	10,138,687	-	**13,570,208**
Unrecoverable deferred tax asset	2,572,089	(2,572,089)	-	**-**
Initial loss and modification loss related to loans and advances	4,685,154	90,015	-	**4,775,169**
Tax loss carry forwards	-	952,354	-	**952,354**
Other	(522,357)	(299,642)	-	**(821,999)**
Net deferred tax asset/(liability	**91,017**	**(11,471,208)**	**(976,416)**	**(12,356,607)**

31 Income Taxes (continued)

The tax effect of the movements in these temporary differences in 2019 is detailed below and is recorded at the rate of 25%:

In thousands of Mongolian Tugriks	1 January 2019	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2019
Tax effect of deductible / (taxable) temporary differences and tax loss carry forwards:				
Loans and advances to customers - interest income on loans overdue more than 90 days	**(9,850,031)**	1,467,901	-	**(8,382,130)**
Fair valuation of securities at FVTPL	**(2,414,557)**	1,025,982	-	**(1,388,575)**
Fair valuation of equity securities at FVTOCI	**3,032,665**	-	2,231,154	**5,263,819**
Credit loss allowance of securities at AC and FVTOCI	**488,805**	(430,132)	-	**58,673**
Credit loss allowance of due from other banks	**-**	209,850	-	**209,850**
Fair value changes of derivative financial instruments	**(29,145,005)**	603,540	-	**(28,541,465)**
Loan and advances to customers	**12,782,841**	(3,170,837)	-	**9,612,004**
Prepaid income – loan origination fee and others	**2,737,249**	(373,393)	-	**2,363,856**
Impairment of buildings	**11,034,541**	(305,963)	-	**10,728,578**
Provision charge for repossessed collateral, gains less losses on revaluation of investment properties and provision for non-current asset held for sale	**1,912,404**	4,091,206	-	**6,003,610**
Initial loss and modification loss related to loans and advances	**4,559,226**	125,928	-	**4,685,154**
Other	**(444,804)**	(77,553)	-	**(522,357)**
Net deferred tax asset/(liability	**(5,306,666)**	**3,166,529**	**2,231,154**	**91,017**

32 Other Comprehensive Income Recognised in Each Component of Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of Mongolian Tugriks	**2020**	**2019**
Change in value of:		
Items that will be reclassified to profit or loss:		
Debt securities at fair value through other comprehensive income:		
- Gains less losses arising during the year	2,217,585	(3,761)
- Gains less losses reclassified to profit or loss upon disposal	(2,217,585)	3,761
Items that will not be reclassified to profit or loss:		
Gains less losses on investments in equity securities at fair value through other comprehensive income	3,905,911	(8,924,616)
Revaluation of premises and equipment	-	1,242,104
Income tax recorded directly in other comprehensive income	(976,478)	2,231,155
Other comprehensive income	**2,929,433**	**(5,451,357)**

33 Dividends

	2020		**2019**	
In thousands of Mongolian Tugriks	**Ordinary**	**Preference**	Ordinary	**Preference**
Dividends payable at 1 January				
Dividends declared during the year	-	1,695,909	-	9,009,657
Dividends paid during the year	-	(1,695,909)	-	(9,009,657)
Dividends payable at 31 December	**-**	**-**	**-**	**-**

Dividend per share was at MNT 103 (2019: 119).

34 Net Debt Reconciliation

The table below sets out an analysis of the Bank's debt and movements for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows:

	Liabilities from financing activities			
In thousands of Mongolian Tugriks	**Borrowed funds**	**Borrowings from other banks**	**Subordinated debt**	**Total**
Net debt at 31 December 2019	**377,365,387**	**538,666,774**	**172,027,616**	**1,088,059,777**
Cash flows	(23,120,151)	357,938,206	(27,616)	287,101,346
Non-cash transactions	(90,129,284)	7,977,923	(172,000,000)	(206,462,268)
Foreign exchange adjustments	6,227,727	27,338,067	-	33,565,794
Net debt at 31 December 2020	**270,343,679**	**931,920,970**	**-**	**1,202,264,649**

35 Financial Risk Management

The risk management within the bank is carried out with respect to financial risks, operational risk, compliance risk, counterparty and third party risk, reputational risk, technology risk, legal risks and as well as risks that emerge from time to time. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary objective of the financial risk management function is to keep an appropriate balance between risk and reward within the bank's Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS) which are approved, supported and promoted by the Board of Governors.

RAF and RAS of the bank identify risk boundaries within which management is expected to operate when pursuing the bank's business strategy. It sets high level boundaries of various risk categories from which more detailed risk limits are derived based upon specific policies for specific activities. The RAF and RAS are dynamic by nature and reviewed, where necessary, at least once per annum in conjunction with the Annual Strategic Plan of the Bank. Such interaction ensures a consistent alignment of risk and strategy including the Bank's capital requirements.

The Board of Governors acknowledges that one of its primary objectives is to explicitly enforce the collective oversight and risk governance responsibilities. An important element of this objective is to emphasize key components of risk governance such as risk culture, risk appetite boundaries and their relationship to the Bank's risk capacity as well as overall checks & balances. The Board of Governors adopts a "Three lines of defense" model in risk governance, where management is the first line of defense, the Risk management committee and the Chief risk officer are the second line of defense and Internal audit is the third line of defense.

Risk management is implemented by the executive level managers in accordance with risk management policy and risk limits approved by the Board. Internal audit division and Risk management division provide independent oversight to the implementation of control objects by the business units and employees, also report directly to the Board's Risk committee, Chief Executive Officer and Executive Committee that works under the oversight of the Chief Executive Officer.

Monitoring and controlling risks are primarily performed based on limits established by the relevant committees of the Bank. These limits reflect the business strategy and market environment of the bank as well as level of risk that the bank is willing to accept. As part of its overall risk management, the Bank uses stress testing analysis to manage exposures resulting from possible changes in interest rate, exchange rates and other price risks.

Credit risk. The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

35 Financial Risk Management (continued)

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the credit division's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Credit Committee.The scale of the credit quality of loans to customers carried at amortised cost is as shown below:

Scale of grade	Stage 1	Stage 2	Stage 3
Excellent	All loans included in stage 1		
Good		All loans included in stage 2	
Satisfactory			All loans in stage 3 with 0 DPD
Special monitoring			All loans in stage 3 with 1-90 DPD
Default			All loans in stage 3 with >90 DPD

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the commitment amounts to an on-balance sheet exposure. The Bank's management estimates that 12-month and lifetime CCFs are materially the same. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, for credit cards issued to individuals, the lifetime exposure is measured over a period that is based on expected life of the credit card contracts, and it is equal to up to 2 years.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes.

The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

35 Financial Risk Management (continued)

To address the uncertainties inherent in the current and future environment and to reflect all relevant risk factors not captured in our modelled results, we applied expert credit judgment in determining significant increases in credit risk since origination and our weighting in calculation of expected credit losses. We applied quantitative and qualitative adjustments for the impacts of the unprecedented macroeconomic scenarios arising from the COVID-19 pandemic, the temporary effects of the bank and government led payment support programs which may not completely mitigate future losses, and the impacts to particularly vulnerable sectors affected by the COVID-19 pandemic.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- Unlikely-to-pay: The borrower meets unlikeliness to pay criteria listed below:
  a. significant financial difficulty of the issuer or obligor;
  b. a breach of contract, such as a default or delinquency in interest or principal payments;
  c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
  d. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
  e. the disappearance of an active market for that financial asset because of financial difficulties;
- The borrower is more than 90 days past due on its contractual payments with exeption to Consumer and Mortgage loan borrower who is more than 120 days past due on its contractual payments due to temporary change in the Bank's policy. Please refer to Note 3 for more details.

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Bank's Credit Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted with exeption to Consumer and Mortgage lending for which the criteria is 60 days past due in its contractual payments due to temporary change in the Bank's policy. Please refer to Note 3 for more details.

The Bank considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

35 Financial Risk Management (continued)

The Bank has closely monitored economic sectors impacted by COVID -19 pandemic when assessing the portfolio for Staging. The Bank has individually assessed significant loans from economic sectors including manufacturing, retail and service etc, where the pandemic impact is different to the individual business nature. Whereas, the Bank has assigned Stage 3 for heavily impact economic sectors including public transportation, tourism, leisure and private education, which had very low income during 2020 and showed significant financial difficulty indication for unlikely to pay.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

The Bank has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same homogeneous segments of the loan portfolio; and (iii) assessment based on external rating. The Bank performs an assessment on an individual basis for the following types of loans: individually significant loans, that is, individual borrower exposure is above MNT 1,000,000 thousands in stage two or three. The Bank performs an assessment on a portfolio basis for the following types of loans: (i) individual exposure is above MNT 1,000,000 thousands in stage one; (ii) consumer loans to individuals and loans to small and medium businesses. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status, the historical data on losses and other predictive information. The Bank performs an assessment based on external ratings for investment in debt securities as carried at AC and FVTOCI and due from other banks.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Division. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (corporate, SME, consumer and mortgage), currency of exposure and product type. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future one year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

35 Financial Risk Management (continued)

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank uses migration matrix statistical approach depending on the segment and days past due bucket to calculate lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of product and seniority of the claim. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products. Collateral value after haircut is incorporated on LGD. If the collateral value after haircut is lower than EAD, the Bank recognizes a loss on difference between EAD and collateral value after haircut multiplied by (1 – Recovery Rate).

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines, credit cards issued to individuals and for financial guarantees is defined based on historical statistical analysis.

ECL measurement for cash and cash equivalent, mandatory reserves with the Bank of Mongolia. The ECL measurement for these instruments follows same method as due from other banks. But it's insignificant for cash and mandatory reserves as these instruments have short lifetime of 14 days.

ECL measurement for due from other banks. The ECL measurement for due from other banks differs from other assets (loan, securities etc.). Current accounts have short lifetime which means expected loss is immaterial. For longer term placement, the Bank chooses highest possible credit rated banks with lower probability of default. For our bank, 70%-80% of due from other banks are placed in investment grade banks in average.

The Bank classifies the due from other banks by credit ratings into five grades. The following table shows credit rating range of each grade.

Scale of grade	Credit ratings
Excellent	Aaa – A3
Good	Baa1 – Ba3
Satisfactory	B1 – B3
Special monitoring	Caa1 – CA, unrated
Default	C

The Bank uses following criteria in defining SICR situation for due from other banks:

- 30 days past due;
- Credit rating is downgraded by two or more notches in the last year or reaching below investment grade;
- Default status.

35 Financial Risk Management (continued)

Staging logic follows same method as general expected credit loss measurement:

A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

According to our bank's experience we never encountered loss due to other bank's default or bankruptcy. Nevertheless, we accept that there is possibility of default in future. But our own data is insufficient to account for that possibility. As such we have following differences in measuring PD, LGD, EAD for due from other banks.

The criteria used for the Bank in defining due from other banks is same as general ECL method for loans, except that it includes credit rating of "C" and below, which is defined as "in default" by Agencies.

For probability of default (PD), the Bank uses Moody's report of corporate default rate by alphanumeric rating category for 12-month PD. We downscale 12-month PD to 1-day, to calculate more accurate ECL.

Average Cumulative Issuer-Weighted Global Default rates be Alphanumeric Rating, 1920-2018[1]

Rating	Horizon 1 year	Rating	Horizon 1 year
Aaa	0.000%	Ba1	0.293%
Aa1	0.000%	Ba2	0.672%
Aa2	0.000%	Ba3	0.874%
Aa3	0.050%	B1	1.202%
A1	0.105%	B2	2.679%
A2	0.066%	B3	3.634%
A3	0.066%	Caa1	4.442%
Baa1	0.139%	Caa2	8.569%
Baa2	0.180%	Caa3	19.517%
Baa3	0.238%	Ca-C	32.936%

For exposure at default (EAD), the Bank uses carrying amount at the time of calculation as the exposure at default.

For loss given default (LGD), historical data for loss given default analysis is also insufficient. Therefore, we use Moody's report of corporate recovery rate for LGD.

ECL measurement for investments in debt securities (Government bonds, Central bank bills and Corporate bonds). The ECL measurement for debt securities follows same steps as stated above which means it has same criteria for defining default and SICR as due from other banks. But it differs in calculating PD, LGD due to insufficient data. So we have following differences in measuring PD and LGD for debt securities.

The Bank classifies the debt securities by overdue days and credit ratings into five grades. The following table shows days past due and credit rating range of each grade.

Scale of grade	Days past due
Excellent	0
Good	1 – 30
Satisfactory	31 – 60
Special monitoring	61 – 90
Default	>90

[1] *Source: Annual Default Study: Corporate default rate and recovery rates, 1920-2018.*

35 Financial Risk Management (continued)

The Bank uses same criteria in defining SICR situation for debt securities as due from other banks:

- 30 days past due;
- Credit rating is downgraded by two or more notches in the last year or reaching below investment grade;
- Default status.

Staging logic follows same method as general expected credit loss measurement:

A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

The criteria used for the Bank in defining due from other banks is same as general ECL method for loans. Except that it includes credit rating of “C” and below, which is defines as “in default”by Agencies.

For probability of default (PD), as the most debt securities are from sovereign sector issuer, the Bank uses Moody’s report[2] on one-year default rate of sovereign for 12-month PD, which is downscaled to 1 day same as due from other banks.

Issuer-Weighted Cumulative Sovereign Default Rates, 1983-2019[2]

Rating	1 years
Aaa	0.000%
Aa	0.000%
A	0.000%
Baa	0.000%
Ba	0.483%
B	2.401%
Caa-C	11.325%

Due to insufficient internal and external data sources, the bank uses corporate segment historical PD of loan portfolio for corporate or non-finance business sector debt securities.

For loss given default (LGD), the Bank uses “Moody’s data of Recovery rates for sovereign bond (1983-2016)” in measuring LGD for Sovereign sector. Due to insufficient internal and external data sources, the bank uses corporate segment historical LGD of loan portfolio for corporate or non-finance business sector debt securities.

ECL measurement for Reverse sale and repurchase agreements. The ECL measurement for reverse sale and repurchase agreements follows same method as debt securities. Only it is fully collateralized by the Bank of Mongolia treasury bills, meaning that it can fully recover from default. So, ECL for reverse sale and repurchase agreements is insignificant.

Forward-looking information incorporated in the ECL models. The assessment ECLs incorporate supportable forward-looking information by using scorecard approach. The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs.

As stated in the IFRS 9 requirements above, complex models are not necessary for all institutions. Given the data quality, historical data and environment, management has decided to apply forward-looking information on the total ECL and not on the single component of ECL (PD, LGD, EAD). The Bank performed an analysis on the relation of observed historical default rate and the macroeconomic variables, which resulted in not so significant relationship between default rate and the macroeconomic variables.

[2] *Source: Sovereign Default and Recovery Rates, 1983-2019.*

35 Financial Risk Management (continued)

The approach that management have opted to implement at transition is a scorecard approach. This approach considers several macroeconomic indicators that are available and uses a duplicable process to apply forward-looking information. Using several reputable sources of information including Bank of Mongolia, Bloomberg and Trading Economics.

Using information obtained from the above sources, management performs a trend analysis and compares the historical information with the available forecasted data to determine whether the indicator represents a positive, negative, or stable trend. Each trend (positive, negative, stable) has a multiplier attached as follows:

- 0.6 for positive
- 1.1 for stable
- 1.6 for negative

The multipliers are based on historical economic evidence, which indicate that during a normal cycle of an economy, excluding recessions and excessive growth, during growth periods, losses within financial institutions experience a decrease of 40% while in a periods of stagnation, losses within financial institutions experience an increase of 60%. Based on that, a multiplier for growth periods are given a multiplier of .6 (1-40%) and a multiplier for periods of stagnation are given a multiplier of 1.6 (1+60%). The median of those two numbers is 1.1, which is applied to the stable economic situation.

Weightings of the various macroeconomic indicators are determined using management's expert judgement and are multiplied by the applicable multiplier above based on the trend of the individual indicator. Management then determine the weightings of the 3 scenarios, being base, upside, and downside using expert judgment of the overall economic conditions and business environment within Mongolia. In 2020, the Bank has considered specifically the COVID-19 pandemic outlook for scenario analysis and provided different weighting assumptions for those economic segments which were heavily impacted by the pandemic.

For assets other than loans, such as debt securities and due from other banks, forward looking information is embedded in Moody's report of rating transitions and default. As it provides projections of probabilities, with conditions on issuer-specific information coupled with forward-looking macroeconomic views to assign probabilities of default, withdrawal, upgrade and downgrade to individual issuers, portfolio of issuers, or rating categories.

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed at least once a year.

The results of back testing the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, (c) equity products, (d) commodity, and (e) financial instruments (including derivatives), all of which are exposed to general and specific market movements. Management sets limits for the key metrics of market risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. As such, the bank revises our contingency plan for a crisis, annually.

Risk tolerances for the Bank's activities in financial markets are moderate level and are outlined in related policies. The Risk Management Committee of the Board establishes annual risk strategy statement, which sets an overall limit for market risk and sub-limits for sectors and instruments. The Asset and Liability Committee (ALCO) monitor market risk exposure within the parameters set by the Risk Management Committee through a review of interest rate and currency exchange rate exposures, and identifies current events and forecasts future developments that could have a material adverse impact upon the Bank's operations and financial condition.

35 Financial Risk Management (continued)

The Director of the Treasury Division manages the day-to-day market risk by monitoring the Bank's asset composition, investment instruments and categories, in each case as directed per the policies and procedures approved by the Risk Management Committee, the Board of Directors and ALCO. Risk Management Division is mainly responsible for the market risk management and reports directly to the Chief Executive Officer and operates under the ongoing oversight and supervision of the ALCO.

Currency risk. Currency risk arises when a bank holds assets or liabilities in foreign currencies and impacts the earnings and capital of the Bank due to the fluctuations in the exchange rates. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Any unhedged position in a particular currency gives rise to foreign exchange risk. In respect of currency risk, management sets limit on the level of exposure by currency and in total for both overnight and intra-day positions.

The Board of Governors sets risk appetite on the level of risk within the foreign exchange portfolio such as unhedged position limit and total portfolio "Value-at-risk" limit. The ALCO of the Bank develops foreign currency trading limits of specific branches in accordance with the Board approved higher-level foreign currency risk appetite.

The Bank measures its foreign currency unhedged position risk by using "Value at risk" model. Within specific confidence level, the highest potential risks resulting from foreign currency fluctuation are estimated based on three different types of "VaR" methodology, namely variance-covariance, historical and Monte Carlo simulation method.

Measurement periods of one and ten trading days are used in VaR analysis and results are verified by an automated daily programme of back testing to compare the actual profits and losses realized in trading activities to VaR estimates. A measurement period of ten trading days complies with the Bank of Mongolia's regulations and results in a confidence level of 99.0 percent. In addition to VaR methodology, the bank also conducts recurrent stress testing to identify potential losses in excess of the projected VaR.

The Bank uses the following hedging techniques in foreign currency risk management, such as:

- Matching foreign currency assets and liabilities to certain extent;
- Hedging using derivatives such as foreign currency swaps and forward contracts;
- Diversifying foreign currency portfolio based on marginal VaR and component VaR results.

Indirect currency risk resulting in NPL increase is the issued loans denominated in foreign currencies and depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Mongolian Tugriks may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses. The share of loans that are exposed to currency risk has certain risk limit, which is regularly updated depending on the market situation and the Bank's business plan.

35 Financial Risk Management (continued)

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2020:

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	157,829,481	226,484,356	65,556,095	111,390,025	**561,259,957**
Mandatory cash balances with the Bank of Mongolia	89,408,122	154,050,075	-	-	**243,458,197**
Due from other banks	10,540,222	1,208,401,460	10,994,348	43,208,431	**1,273,144,461**
Investments in debt securities	1,216,433,810	147,966,810	-	-	**1,364,400,620**
Investments in equity securities	(3,928,594)	25,212,343	69,217	8,142,356	**29,495,322**
Loans and advances to customers	2,859,754,605	148,161,451	19,448,966	3,980,893	**3,031,345,915**
Repossessed financial assets	121,292,776	-	-	-	**121,292,776**
Other financial assets	29,786,265	657,760	9,831	15,647	**30,469,503**
Total monetary financial assets	**4,481,116,687**	**1,910,934,255**	**96,078,457**	**166,737,352**	**6,654,866,751**
Monetary financial liabilities					
Due to other banks	1,361,283	3,304,142	62,813	9,910,723	**14,638,962**
Customer accounts					
- Current Accounts	748,134,147	566,031,676	22,284,407	107,206,428	**1,443,656,658**
- Demand Savings	617,478,076	427,941,208	35,841,831	18,336,929	**1,099,598,044**
- Time Savings	1,950,793,986	760,576,442	16,104,547	14,945,500	**2,742,420,475**
Other borrowed funds	189,851,021	989,417,220	21,165,268	1,831,140	**1,202,264,649**
REPO arrangements	20,088,596	-	-	-	**20,088,596**
Subordinated debt	-	-	-	-	**-**
Other financial liabilities	85,614,943	3,613,923	79,823	522,533	**89,831,222**
Total monetary financial liabilities	**3,613,322,052**	**2,750,884,611**	**95,538,689**	**152,753,253**	**6,612,498,606**
Derivatives	(1,140,116,888)	970,938,712	-	(36,436,627)	**(205,614,803)**
Net balance sheet position	**(272,322,253)**	**130,988,356**	**539,768**	**(22,452,528)**	**(163,246,658)**

35 Financial Risk Management (continued)

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2019:

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	314,494,602	691,423,723	30,081,460	74,252,722	**1,110,252,507**
Mandatory cash balances with the Bank of Mongolia	175,850,072	102,490,477	13,570,856	-	**291,911,405**
Due from other banks	32,332,381	813,965,944	12,697,402	47,568,982	**906,564,709**
Investments in debt securities	286,374,135	561,587	-	-	**286,935,722**
Investments in equity securities	50,380,059	24,468,266	60,608	7,788,301	**82,697,234**
Loans and advances to customers	3,044,480,592	225,700,543	32,949,503	3,563,674	**3,306,694,312**
Repossessed financial assets	131,581,132	-	-	-	**131,581,132**
Other financial assets	12,561,293	927,999	86,744	37,241	**13,613,277**
Total monetary financial assets	**4,048,054,266**	**1,859,538,539**	**89,446,573**	**133,210,920**	**6,130,250,298**
Monetary financial liabilities					
Due to other banks	40,160,162	8,157,226	1,086,571	3,524,553	**52,928,512**
Customer accounts					
- Current Accounts	963,495,187	772,464,076	25,830,096	77,687,368	**1,839,476,727**
- Demand Savings	326,261,805	159,462,324	11,240,552	23,472,729	**520,437,410**
- Time Savings	1,780,877,711	731,282,437	15,348,016	13,219,323	**2,540,727,487**
Other borrowed funds	203,684,496	673,508,809	35,609,767	3,229,090	**916,032,162**
REPO arrangements	24,876,114	-	-	-	**24,876,114**
Subordinated debt	172,027,616	-	-	-	**172,027,616**
Other financial liabilities	92,851,228	6,997,384	36,161	242,445	**100,127,218**
Total monetary financial liabilities	**3,604,234,319**	**2,351,872,256**	**89,151,163**	**121,375,508**	**6,166,633,246**
Derivatives	(704,954,571)	566,600,973	-	243,210	**(138,110,388)**
Net balance sheet position	**(261,134,624)**	**74,267,256**	**295,410**	**12,078,622**	**(174,493,336)**

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

In thousands of Mongolian Tugriks	2020	2019
US Dollar strengthening by 15% (2019: strengthening by 15%)	19,648,253	(75,281,602)
US Dollar weakening by 15% (2019: weakening by 15%)	(19,648,253)	75,281,602
Euro strengthening by 15% (2019: strengthening by 15%)	80,965	44,312
Euro weakening by 15% (2019: weakening by 15%)	(80,965)	(44,312)
Other strengthening by 15% (2019: strengthening by 15%)	(3,367,879)	1,775,101
Other weakening by 15% (2019: weakening by 15%)	3,367,879	(1,775,101)

35 Financial Risk Management (continued)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective the Bank.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The principal objective of the Bank's interest rate risk management activities is to increase profitability by limiting the effect of adverse interest rate movements and increasing net interest income by managing interest rate exposure.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions. The bank manages interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk. Methods are used to estimate the degree of interest rate risk include gap analysis (mismatch management), duration analysis (analysis of weighted average maturities), and interest income simulation. Additionally, the bank manages and minimizes risk through interest gap management, interest risk hedging and compliance with established limits. The process of interest rate limits includes (i) limit on maximum loss, (ii) limits on interest rate gap and (iii) minimum interest rate on allocation of resources.

The Asset and Liability Committee sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored regularly. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

At 31 December 2020, if interest rates at that date had been 10% higher/(lower) (2019: 10% higher/lower) with all other variables held constant, profit or loss and equity for the year would have been MNT 14,523,025 thousands (2019: MNT 17,449,334 thousands) higher/(lower), mainly as a result of high net interest sensitivity gap and changes interest rates during 2019.

The Bank's exposure to interest rate risk at the end of the reporting period is not representative of the typical exposure during the year. For the average exposure during 2020, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 15,986,180 thousands higher/(lower) (2019: MNT 18,243,103 thousands higher/(lower)).

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates:

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2020						
Financial assets	2,582,607,933	389,926,201	613,343,339	2,480,007,358	794,596,723	6,860,481,554
Financial liabilities	2,990,673,935	1,326,933,571	1,258,935,487	997,329,399	38,626,214	6,612,498,606
Net interest sensitivity gap at 31 December 2020	**(408,066,002)**	**(937,007,370)**	**(645,592,148)**	**1,482,677,959**	**755,970,509**	**247,982,948**
At 31 December 2019						
Financial assets	2,413,132,874	765,773,534	898,836,518	1,867,316,475	323,301,285	**6,268,360,686**
Financial liabilities	2,762,156,157	1,388,976,543	1,014,311,652	938,356,548	62,832,346	**6,166,633,246**
Net interest sensitivity gap at 31 December 2019	**(349,023,283)**	**(623,203,009)**	**(115,475,134)**	**928,959,927**	**260,468,939**	**101,727,440**

35 Financial Risk Management (continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

In % p.a.	2020				2019			
	MNT	**USD**	**EUR**	**Other**	**MNT**	**USD**	**EUR**	**Other**
Assets								
Mandatory reserves at Bank of Mongolia	2.5%	0.0%	0.0%	0.0%	4.5%	0.0%	0.0%	0.0%
Due from other banks	8.3%	1.6%	0.0%	0.0%	9.8%	2.3%	0.0%	0.0%
Loans and advances to customers	15.6%	10.9%	6.4%	8.0%	15.8%	10.2%	7.1%	7.9%
Investments in debt securities	6.5%	5.0%	0.0%	0.0%	10.8%	8.6%	0.0%	0.0%
Reverse sale and repurchase agreements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Liabilities								
Due to other banks	2.0%	0.0%	0.0%	0.0%	1.8%	0.0%	0.0%	0.0%
Customer accounts								
- Current/settlement accounts	0.0%	0.0%	0.0%	0.0%	3.1%	1.2%	0.8%	0.0%
- Demand deposits	5.1%	0.9%	1.2%	1.2%	6.9%	2.0%	1.1%	1.1%
- Time deposits	10.7%	3.91%	0.8%	2.7%	11.4%	5.0%	2.6%	2.6%
REPO agreements	6.5%	0.0%	0.0%	0.0%	11.0%	0.0%	0.0%	0.0%
Other borrowed funds	6.8%	2.3%	2.4%	6.5%	7.0%	2.5%	3.0%	4.9%
Subordinated debt	12.6%	0.0%	0.0%	0.0%	12.6%	0.0%	0.0%	0.0%

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Bank has limited exposure to equity price risk. Transactions in equity products are monitored and authorised by the Bank treasury. At 31 December 2020, if equity prices at that date had been 15% (2019: 15%) lower (higher) with all other variables held constant, profit and equity for the year would have been MNT 2,581,719 thousands (2019: MNT 2,657,902 thousands) lower (higher).

The Bank is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Bank's current year profit loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2019: no material impact).

Geographical risk concentrations. The Bank is exposed to geographical concentration risk, as almost all of its financial assets and credit related commitments are placed in Mongolia as of 31 December 2020 and 31 December 2019. A major part of the financial liabilities for 31 December 2020 and 31 December 2019 relates to Mongolia. The management believes that the Bank's exposure to geographical concentration risk is mitigated due to relatively high customer diversification and industry diversification.

Other 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.

35 Financial Risk Management (continued)

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, the Bank of Mongolia ("Central Bank") sets the following limits: i.e The maximum amount of the overall credit exposures issued and other credit-equivalent assets to the individual and his/her related persons shall not exceed 20 percent of the capital of the Bank; ii. The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed the 5 percent of the capital for one related person to the Bank, and the aggregation of overall lending to the related persons shall not exceed 20 percent of the capital of the Bank.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers. The Bank's exposure to concentration risk, including industry concentration risk, is disclosed in Notes 12.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Bank's liquidity risk management framework is designed to measure and manage liquidity at various levels of consolidation such that short- and medium-term payment obligations could be met under normal or stressed conditions. Liquidity management is implemented centrally on a real-time basis by the Treasury Division through all the bank's divisions and branches, in accordance with the forecasts and internal requirements and the director of the Treasury Division is consulted on each major credit decision regarding the impact of credit on overall liquidity position. The Board's Risk management committee sets liquidity risk standards in accordance with regulatory requirements and international best practice, thereby establishing a comprehensive framework to the bank's liquidity risk management. As part of a comprehensive liquidity risk evaluation, the ALCO incorporates and monitors the cumulative effect of the following factors: (i) short- and long-term cash flow management; (ii) maintaining a structurally sound balance sheet; (iii) foreign currency liquidity management; (iv) preserving a diversified funding base; (v) undertaking regular liquidity stress testing; and (vi) maintaining adequate liquidity contingency plans.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Mongolia. The liquidity ratio during the year was as follows:

	2020	**2019**
31 December	40.25%	32.60%
Average during the period	33.21%	34.50%
Highest	40.85%	42.47%
Lowest	28.10%	28.51%

The Bank conducts the liquidity stress test. In order to identify the potential deposit outflow related to Covid-19 pandemic and ensure the adequate liquidity even after the economic shocks, Risk Appetite Statement defines the amount of liquidity buffer to add to liquidity indicators and determines the risk limits to set threshold in specific risks.

The table below shows the assets and liabilities as at 31 December 2020 and 31 December 2020 by their remaining contractual maturity.

The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

35 Financial Risk Management (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2020 is as follows:

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with central bank (other than mandatory reserve)	561,259,957	-	-	-	-	**561,259,957**
Mandatory cash balances with the Bank of Mongolia	243,458,197	-	-	-	-	**243,458,197**
Due from other banks	295,477,679	14,305,227	108,125,464	902,450,233	-	**1,320,358,603**
Investments in debt securities	1,099,685,714	-	-	7,181,987	505,314,697	**1,612,182,398**
Investments in equity securities	54,495,322	-	-	-	-	**54,495,322**
Loans and advances to customers	331,022,566	523,229,708	653,828,358	1,787,660,155	840,850,002	**4,136,590,789**
Derivative financial instruments-asset						
- inflows	387,270	-	2,502,459	217,298,369	-	**220,188,098**
- outflows	(665,067)	-	(1,986,354)	(11,921,875)	-	**(14,573,296)**
Repossessed financial assets	121,292,776					**121,292,776**
Other financial assets	27,766,089	501,742	2,201,572	100	-	**30,469,503**
Total Financial Assets	**2,734,180,503**	**538,036,677**	**764,671,499**	**2,902,668,969**	**1,346,164,699**	**8,285,722,347**
Liabilities						
Due to other banks	14,638,962	-	-	-	-	**14,638,962**
Customer accounts	2,894,709,248	1,338,746,745	1,068,903,998	99,931,406	-	
- Current accounts	1,445,822,546	-	-	-	-	**1,445,822,546**
- Demand deposits	1,099,484,995	103	1,058	135,232	-	**1,099,621,388**
- Term deposits	349,401,707	1,338,746,642	1,068,902,940	99,796,174	-	**2,856,847,463**
Other borrowed funds	392,718	18,983,432	276,084,984	949,004,301	48,265,914	**1,292,731,349**
REPO arrangements	-	-	-	19,999,557	-	**19,999,557**
Other financial liabilities	84,244,115	1,598,033	2,100,114	1,588,122	300,838	**89,831,222**
Total Financial Liabilities	**2,993,985,043**	**1,359,328,210**	**1,347,089,096**	**1,070,523,386**	**48,566,752**	**6,819,492,487**
Credit related commitments	76,739,346	145,256,922	181,867,762	207,819,649	57,794,792	**669,478,471**
Guarantee and LC	68,827,336	71,415,211	141,408,490	180,380,424	55,855,848	**517,887,309**
Credit Line undrawn	7,912,010	73,841,711	40,459,272	27,439,225	1,938,944	**151,591,162**
Net Gap	**(336,543,886)**	**(966,548,455)**	**(764,285,359)**	**1,624,325,934**	**1,239,803,155**	**796,751,389**
Accumulated Net Gap	**(336,543,886)**	**(1,303,092,340)**	**(2,067,377,699)**	**(443,051,765)**	**796,751,390**	

35 Financial Risk Management (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2019 is as follows:

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with central bank (other than mandatory re-serve)	1,110,252,507	-	-	-	-	**1,110,252,507**
Mandatory cash balances with the Bank of Mongolia	291,911,405	-	-	-	-	**291,911,405**
Due from other banks	225,333,373	-	138,534,799	594,442,945	-	**958,311,117**
Investments in debt securities	169,941,553	-	7,205,853	9,544,303	286,827,564	**473,519,273**
Investments in equity securities	71,997,234	-	-	-	-	**71,997,234**
Loans and advances to customers	419,213,458	920,791,149	932,003,642	1,562,324,153	411,894,543	**4,246,226,945**
Derivative financial instruments-asset						
- inflows	81,571	-	-	153,124,204	-	**153,205,775**
- outflows	(276,920)	-	-	(14,818,467)	-	**(15,095,387)**
Repossessed financial assets	131,581,132	-	-	-	-	**131,581,132**
Other financial assets	5,794,928	3,777,743	1,807,521	2,233,083	-	**13,613,275**
Total Financial Assets	**2,425,830,241**	**924,568,892**	**1,079,551,815**	**2,306,850,221**	**698,722,107**	**7,435,523,276**
Liabilities						
Due to other banks	52,617,967	310,545	-	-	-	**52,928,512**
Customer accounts						
- Current accounts	1,839,476,727	-	-	-	-	**1,839,476,727**
- Demand deposits	520,437,370	-	40	-	-	**520,437,410**
- Term deposits	317,779,569	1,237,067,363	1,028,895,224	71,852,246	-	**2,655,594,402**
Other borrowed funds	50,770,834	102,909,220	53,419,367	710,462,302	75,279,264	**992,840,987**
REPO arrangements	25,000,000	-	-	-	-	**25,000,000**
Subordinated debt	-	-	-	280,506,367	-	**280,506,367**
Other financial liabilities	24,436,884	74,882,006	221,840	586,487	-	**100,127,217**
Total Financial Liabilities	**2,830,519,351**	**1,415,169,134**	**1,082,536,471**	**1,063,407,402**	**75,279,264**	**6,466,911,622**
Credit related commitments	**112,904,258**	**85,613,775**	**138,545,835**	**134,261,821**	**45,286,561**	**516,612,250**
Guarantee and LC	76,744,545	65,520,864	127,917,314	120,240,204	45,286,561	**435,709,488**
Credit Line undrawn	36,159,713	20,092,911	10,628,521	14,021,617	-	**80,902,762**
Net Gap	**(517,593,368)**	**(576,214,017)**	**(141,530,491)**	**1,109,180,998**	**578,156,282**	**451,999,404**
Accumulated Net Gap	**(517,593,368)**	**(1,093,807,385)**	**(1,235,337,876)**	**(126,156,878)**	**451,999,404**	

35 Financial Risk Management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2020:

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with central bank (other than mandatory reserve)	561,259,957	-	-	-	-	**561,259,957**
Mandatory cash balances with the Bank of Mongolia	243,458,197	-	-	-	-	**243,458,197**
Due from other banks	295,853,333	14,282,219	104,454,475	858,554,434	-	**1,273,144,461**
Investments in debt securities	1,096,937,280	-	-	5,256,341	262,206,999	**1,364,400,620**
Investments in equity securities	29,495,322	-	-	-	-	**29,495,322**
Loans and advances to customers	206,822,777	375,142,240	506,171,184	1,410,819,989	532,389,725	**3,031,345,915**
Derivative financial instruments-asset						
- inflows	387,270	-	2,502,460	217,298,369	-	**220,188,099**
- outflows	(665,067)	-	(1,986,354)	(11,921,875)	-	**(14,573,296)**
Repossessed financial assets	121,292,776					**121,292,776**
Other financial assets	27,766,089	501,742	2,201,572	100	-	**30,469,503**
Total Financial Assets	**2,582,607,934**	**389,926,201**	**613,343,337**	**2,480,007,358**	**794,596,724**	**6,860,481,554**
Liabilities						
Due to other banks	14,638,962	-	-	-	-	**14,638,962**
Customer accounts						
- Current accounts	1,443,656,658	-	-	-	-	**1,443,656,658**
- Demand deposits	1,099,484,995	102	963	111,984	-	**1,099,598,044**
- Term deposits	348,258,227	1,306,513,524	1,000,039,326	87,609,398	-	**2,742,420,475**
Other borrowed funds	390,978	18,821,912	256,795,085	887,931,299	38,325,376	**1,202,264,649**
REPO arrangements	-	-	-	20,088,596	-	**20,088,596**
Subordinated debt	-	-	-	-	-	**-**
Other financial liabilities	84,244,115	1,598,033	2,100,114	1,588,122	300,838	**89,831,222**
Total Financial Liabilities	**2,990,673,935**	**1,326,933,571**	**1,258,935,486**	**997,329,399**	**38,626,214**	**6,612,498,606**
Liquidity gap arising from financial instruments	**(408,066,002)**	**(937,007,370)**	**(645,592,150)**	**1,482,677,959**	**755,970,509**	**247,982,947**
Accumulated Net Gap	**(408,066,002)**	**(1,345,073,371)**	**(1,990,665,521)**	**(507,987,562)**	**247,982,947**	

35 Financial Risk Management (continued)

. The maturity analysis of financial instruments of the Bank at 31 December 2019:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	1,110,252,507	-	-	-	-	**1,110,252,507**
Mandatory cash balances with the Bank of Mongolia	291,911,405	-	-	-	-	**291,911,405**
Due from other banks	225,241,039	-	132,081,293	549,242,377	-	**906,564,709**
Investments in debt securities	168,832,512	-	6,515,388	5,245,430	106,342,392	**286,935,722**
Investments in equity securities	82,697,234	-	-	-	-	**82,697,234**
Loans and advances to customers	397,017,466	761,995,791	758,432,316	1,172,289,846	216,958,893	**3,306,694,312**
Derivative financial instruments-asset						
- inflows	81,571	-	-	153,124,204	-	**153,205,775**
- outflows	(276,920)	-	-	(14,818,467)	-	**(15,095,387)**
Repossessed financial assets	131,581,132	-	-	-	-	**131,581,132**
Other financial assets	5,794,928	3,777,743	1,807,521	2,233,085	-	**13,613,277**
Total Financial Assets	**2,413,132,874**	**765,773,534**	**898,836,518**	**1,867,316,475**	**323,301,285**	**6,268,360,686**
Liabilities						
Due to other banks	52,928,512	-	-	-	-	**52,928,512**
Customer accounts						
- Current accounts	1,839,476,727	-	-	-	-	**1,839,476,727**
- Demand deposits	520,437,370	-	40	-	-	**520,437,410**
- Term deposits	292,446,523	1,212,551,963	963,481,070	66,329,985	5,917,946	**2,540,727,487**
Other borrowed funds	7,554,027	101,542,574	50,608,701	699,412,460	56,914,400	**916,032,162**
REPO arrangements	24,876,114	-	-	-	-	**24,876,114**
Subordinated debt	-	-	-	172,027,616	-	**172,027,616**
Other financial liabilities	24,436,884	74,882,006	221,841	586,487	-	**100,127,218**
Total Financial Liabilities	**2,762,156,157**	**1,388,976,543**	**1,014,311,652**	**938,356,548**	**62,832,346**	**6,166,633,246**
Liquidity gap arising from financial instruments	**(349,023,283)**	**(623,203,009)**	**(115,475,134)**	**928,959,927**	**260,468,939**	**101,727,440**
Accumulated Net Gap	**(349,023,283)**	**(972,226,292)**	**(1,087,701,426)**	**(158,741,499)**	**101,727,440**	

35 Financial Risk Management (continued)

The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of the portfolio's reliability.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements in respect of guarantees and letters of credit are considerably lower than the amount of the related commitment because the Bank does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

36 Management of Capital

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central Bank, namely the requirements of the deposit insurance system; to maintain the Bank's operations as a going concern and to maintain its capital base at the level necessary to ensure a 12% (2019:12%) risk weighted capital ratio and 9% (2019: 9%) core capital ratio in accordance with the requirements set by the Bank of Mongolia. The control over compliance with the capital adequacy ratio set by the Bank of Mongolia is exercised daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Chairman of the Board of Directors and Chief Accountant of the Bank.

The Bank is keen on maintaining the necessary capital level in order to preserve the confidence of creditors, investors and the market as a whole as well as to develop the future activity of the Bank. In accordance with the current capital requirements set by the Central Bank, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level.

36 Management of Capital (continued)

The table below shows the regulatory capital structure prepared in accordance with the requirements of the Bank of Mongolia legislation based on IFRS financial statements:

	2020	2019
Core capital ratio	15.07%	10.06%
Risk weighted capital ratio	15.47%	14.88%
Tier I capital		
Ordinary shares	42,240,037	32,014,498
Share premium	291,843,805	135,171,702
Retained earnings	210,853,485	197,396,268
Other components of equity	62,817,996	64,396,803
Treasury stock	(80,500)	-
Total Tier I Capital	**607,674,823**	**428,979,271**
Tier II capital		
Subordinated loans	-	172,000,000
Preferred shares	25,778,900	25,778,900
Revaluation fund	3,747,772	7,746,670
Treasury stock/ Preferred shares	(9,390,800)	-
Share premium of treasury stock	-	-
Total Tier II Capital	**20,135,872**	**205,525,570**
Total capital/capital base	**627,810,695**	**634,504,841**

The equity capital of the Bank amounted to MNT 631,558,466 thousands as of 31 December 2020 (31 December 2019: MNT 462,504,841 thousand). The Bank have complied with all externally imposed capital requirements as at the end of 2020 and 2019.

37 Contingencies and Commitments

Legal proceedings. In the normal course of business, there are cases in which the Bank receives a claim against it. The Bank has formal controls and policies for managing legal claims. If management decides that there is material impact to the Bank, based on its own estimates and internal professional advice; the Bank makes adjustments to account for any adverse effects which claims may have on its financial statements. As of December 31, 2020, MNT 8.1 million provision was booked due to legal claims.

Tax legislation. Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation on as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

37 Contingencies and Commitments (continued)

The 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.

The 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, transfer pricing 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 believes that its interpretation of the relevant legislation is appropriate and the Bank's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk 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.

Compliance with covenants. The Bank is subject to certain covenants related to other borrowed funds obtained under a certain project. As disclosed in Notes 22, there were a breach of covenants that would not require immediate repayment of the borrowings as of 31 December 2020. For more details, please refer to Note 22.

Credit related 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.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

37 Contingencies and Commitments (continued)

However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

In thousands of Mongolian Tugriks	**2020**	**2019**
Financial guarantees issued	37,529,034	159,699,373
Performance guarantees issued	303,843,740	276,010,115
Letters of credit	176,514,535	46,200,188
Undrawn credit lines	151,591,162	139,672,774
Total credit related commitments	**669,478,471**	**621,582,450**
Less: Expected credit loss allowance for impairment of credit related commitments	(2,897,006)	(1,937,760)
Total credit related commitments	**666,581,465**	**619,644,690**

For the purpose of ECL measurement credit related commitments are included in Stage 1.

Movements in the expected credit loss allowance for credit related commitments to legal entities and individuals during 2020 are as follows:

In thousands of Mongolian Tugriks	**Financial guarantees issued**	**Perfor-mance guarantees issued**	**Letters of credit**	**Total**
Expected credit loss allowance at 1 January 2020	**247,607**	**1,669,722**	**20,431**	**1,937,760**
(Recovery of)/provision for impairment during the year	233,082	554,758	171,407	**959,246**
Expected credit loss allowance at 31 December 2020	**480,689**	**2,224,480**	**191,838**	**2,897,006**

Movements in the expected credit loss allowance for credit related commitments to legal entities and individuals during 2019 are as follows:

In thousands of Mongolian Tugriks	**Financial guarantees issued**	**Performance guarantees issued**	**Letters of credit**	**Total**
Expected credit loss allowance at 1 January 2019	**547,871**	**2,760,839**	**90,514**	**3,399,224**
(Recovery of)/provision for impairment during the year	(300,264)	(1,091,117)	(70,083)	**(1,461,464)**
Expected credit loss allowance at 31 December 2019	**247,607**	**1,669,722**	**20,431**	**1,937,760**

37 Contingencies and Commitments (continued)

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

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Please refer to Note 4.23 for accounting policy of performance guarantee.

As of 31 December 2020, management concluded that provision for credit related commitments in the amount of MNT 2,897,006 thousands (31 December 2019: MNT 1,937,760 thousands) is necessary, based on all available information using its best estimate of losses incurred and the probability of their occurrence after analysing financial conditions of the Bank's customers.

Assets pledged and restricted. Mandatory cash balances with the Bank of Mongolia in the amount of MNT 243,458,197 thousands as of 31 December 2020 (31 December 2019: MNT 291,911,405) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations (Note 8).

As of 31 December 2020, Bank of Mongolia treasury bills in amount of MNT 20,193,000 thousands (31 December 2019: MNT 25,000,000 thousands) (Note 10).

Correspondent accounts with other banks include current account of USD 305,000 thousands (31 December 2019: USD 200,000 thousands) with foreign banks, pledged as collateral for the loans obtained from the foreign banks (refer to Note 9 and Note 22).

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.

38 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Gross amounts before offsetting in the statement of financial position and related net amounts are given below.

In thousands of Mongolian Tugriks	**2020**	**2019**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- Financial assets at fair value through profit or loss	220,188,099	153,205,775
- Financial liabilities at fair value through profit or loss	(14,573,296)	(15,095,387)
Foreign exchange forwards and swaps, net fair value	**205,614,803**	**138,110,388**

38 Derivative Financial Instruments (continued)

In thousands of Mongolian Tugriks	2020	2019
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	147,052,939	160,434,241
- USD payable on settlement (-)	(37,450,625)	(243,669)
- MNT receivable on settlement (+)	269,688,551	181,791,674
- MNT payable on settlement (-)	(176,728,972)	(203,952,033)
- Other currencies receivable on settlement (+)	11,792,360	243,669
- Other currencies receivable on settlement (-)	(8,739,450)	(163,494)
Net fair value of foreign exchange forwards and swaps	**205,614,803**	**138,110,388**

Derivative financial instruments in amount of MNT 14,504,028 thousands are related to unrealized gain from long-term swap are classified as financial assets at FVTPL.

Financial assets of MNT 205,892,600 thousands as at 31 December 2020 (31 December 2019: MNT 138,305,737 thousands) relates to a long-term cross currency interest rate exchange contract with the Bank of Mongolia in the amount of USD 100,000 thousands on 28 September 2018 maturing on 28 September 2023 and in the amount of USD 7,500 thousands on 23 October 2017 with maturity of 15 September 2025 and in the amount of USD 100,000 thousands on 01 April 2019 with maturity of 27 March 2024.

Moreover, during 2020 several other cross currency interest rate exchange contracts with the Bank of Mongolia were concluded including the amount of USD 100,000 thousands on 22 June 2020 maturing on 15 June 2025 and the amount of USD 5,000 thousands on 22 September 2020 with maturity of 04 September 2023 and the amount of USD 5,500 thousands on 21 December 2020 with maturity of 13 January 2022 and the amount of USD 19,000 thousands on 07 August 2020 with maturity of 21 October 2021.

During 2020, the Bank entered a long term cross currency interest rate swap with Bank of Mongolia and gains less losses from financial derivative resulted MNT 67,284,205 thousands (2019: MNT 69,196,810 thousands), foreign exchange loss of MNT 26,192,000 thousands (2019: MNT 19,261,000 thousands), net interest expense of MNT 24,003,193 thousands (2019: MNT 13,861,797 thousands). Remaining amount of gains is related to short-term swaps.

39 Fair Value Disclosures

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value. As no readily available market exists for major part of the Bank's financial instruments, their fair value is based on current economic conditions and the specific risks attributable to the instrument. The estimates presented below are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

39 Fair Value Disclosures (continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2020				2019			
In thousands of Mongolian Tugriks	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Investments in debt securities at FVTPL	-	-	116,890,897	**116,890,897**	-	-	106,342,392	**106,342,392**
Investments in debt securities at FVTOCI	145,893,547	-	1,096,937,280	**1,242,830,827**	555,303	-	168,832,512	**169,387,815**
Investments in equity securities at FVTPL	17,211,464	-	-	**17,211,464**	17,719,353	-	-	**17,719,353**
Investments in equity securities at FVTOCI	11,819,070	-	464,787	**12,283,857**	6,521,702	-	456,179	**6,977,881**
Loan and advances to customers at FVTPL	-	-	189,754,281	**189,754,281**	-	-	134,561,528	**134,561,528**
Repossessed financial assets	-	-	121,292,776	**121,292,776**	-	-	131,581,132	**131,581,132**
Derivative financial instruments-asset	-	205,614,803	-	**205,614,803**	-	138,110,388	-	**138,110,388**
Non-financial assets								
Premises	-	-	104,292,945	**104,292,945**	-	-	102,663,268	**102,663,268**
Investment properties	-	-	39,671,913	**39,671,913**	-	-	42,387,502	**42,387,502**
Precious metals	67,896,022	-	-	**67,896,022**	67,019,542	-	-	**67,019,542**
Total assets recurring fair value measurements	**242,820,103**	**205,614,803**	**1,669,304,879**	**2,117,739,785**	**91,815,900**	**138,110,388**	**686,824,513**	**916,750,801**

39 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2020 and 31 December 2019:

In thousands of Mongolian Tugriks	**2020** Fair value	**2019** Fair value	**Valuation technique**	**Inputs used**
Other financial assets				
Financial derivatives	205,614,803	138,110,388	Interest rate parity theory	MNT discount yield curve based on repo rate, weighted average rate of 28 week Central bank bill, US treasury bill yield, US LIBOR 6M, US 6 month Libor Spreads Curve, Mongolia and US CPI forecast, Z spread
Total recurring fair value measurements at level 2	**205,614,803**	**138,110,388**		

As of 31 December 2019, fair value measurement was variable 12 months LIBOR rate and policy rate based on forecast of internal researchers in valuation technique for level 2 recurring fair value measurement. During 2020, the Bank changed inputs to actual and constant 12 months US LIBOR and changing variable US 6 months LIBOR spread curve and weighted average rate of 28 week Central bank bill, to calculate MNT and USD cashflow. The Bank also used Yield of Mongolian government Eurobonds maturing in 2024, denominated in USD, to discount MNT cashflow and Yield of US Treasury bills to discount USD cashflow in the fair value measurement date.

Financial assets

Equity securities, which are classified as Level 1 for fair value measurement purposes, mostly relate to the Bank's investment in a joint stock companies established in Mongolia in the amount of MNT 17,211,464 thousands (31 December 2019: MNT 17,719,353 thousands of investment securities at fair value through profit or loss) are disclosed in Note 11. Companies are listed in the Mongolian Stock exchange and Foreign Stock exchange.

Derivative financial instruments, which are classified as level 2 for fair value measurement purposes, in amount of MNT 205,614,803 thousands (31 December 2019: MNT 138,110,388 thousands) are related to unrealized gain from long-term and short-term swaps and are classified as financial assets at FVTPL.

Investments in debt securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 1,213,828,177 thousands (31 December 2019: MNT 275,174,904 thousands, which were classified as level 3) are related to treasury bills of Bank of Mongolia and MIK bonds.

Investments in equity securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 12,283,857 thousands (31 December 2019: MNT 6,977,881, which were classified as level 3) are related to unquoted financial investments in corporate and investments in investment funds. Management applied valuation technique to determine the fair value as at year-end, which is based on price per net asset of similar company, which is listed in Mongolian Stock Exchange.

If the market price of debt and equity securities, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would increase/(decrease) by MNT 29,030,534 thousands and 2,546,478 thousands (2019: MNT 24,241,055 thousands and MNT 5,845,617) respectively.

39 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

Repossessed financial assets, which are classified as level 3 for fair value measurement purposes, relate to the shares in a company (refer to Note 18) acquired in the process of settlement of overdue loans. Fair value of the shares were determined using fair value of assets and liabilities of the entity, which was determined using market comparable approach and discounted future cash flow approach.

If the market price of repossessed financial assets, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would increase/(decrease) by MNT 12,129,277 thousands (2019: MNT 24,698,301 thousands).

The methods and significant assumptions applied in determining the fair value of premises were the income method and the valuation was based principally on discounted cash flows based on reliable estimates of future cash flows from the expected market rental income streams from similar properties. The method considers net income generated by comparable property.

Non-financial assets at 31 December 2020:

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (price per sq. m)**	**Reasonable change**	**Sensitivity of fair value measurement**
Assets at fair value Non-financial assets						
Premises	104,292,945	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	3,073-11,800	10%	10,429,295
Investment properties	39,671,913	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	563.8-3,412.6	10%	3,952,785
Precious metals	67,896,022	Market comparison method				
Total recurring fair value measurements at level 3	**211,716,822**					**14,382,080**

Non-financial assets at 31 December 2019:

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (price per sq. m)**	**Reasonable change**	**Sensitivity of fair value measurement**
Assets at fair value Non-financial assets						
Premises	102,663,268	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	1,007 - 11,700	10%	10,266,327
Investment properties	42,387,502	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	531.9 - 6,500	10%	4,238,750
Precious metals	67,019,542	Market comparison method				
Total recurring fair value measurements at level 3	**212,070,312**					**14,505,077**

39 Fair Value Disclosures (continued)

(b) Non-recurring fair value measurements

The Bank has written down its non-current assets held for sale to fair value less costs to sell. The fair value belongs to level 3 measurements in the fair value hierarchy. The valuation technique and inputs used in the fair value measurement at 31 December 2020.

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (price per sq. m)**	**Sensitivity of fair value measurement**
Non-current assets held for sale	26,983,976	Market comparison method	Market sales/rental prices with appropriate adjustments, discounts/haircuts	1,043 – 2,708	2,712,803

The valuation technique and inputs used in the fair value measurement at 31 December 2019.

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (price per sq. m)**	**Sensitivity of fair value measurement**
Non-current assets held for sale	57,125,324	Market comparison method	Market sales/rental prices with appropriate adjustments, discounts/haircuts	1,300 – 5,400	5,712,532

(c) Valuation processes for recurring and non-recurring level 3 fair value measurements

Level 3 valuations are reviewed on a yearly basis by the Bank's Asset Management Division with the aid of an external valuator. Management considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the real estate market.

39 Fair Value Disclosures (continued)

(d) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2020 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with central bank (other than mandatory reserve)	**126,009,968**	**435,249,989**	**-**	**561,259,957**
Cash on hand	126,009,968	-	-	126,009,968
Current account with the central bank		435,249,989	-	435,249,989
Mandatory cash balances with the Bank of Mongolia	**-**	**243,458,197**	**-**	**243,458,197**
Due from other banks	**-**	**1,273,144,461**	**-**	**1,273,144,461**
Correspondent accounts with other banks				
Foreign	-	272,238,403	-	272,238,403
Domestic	-	2,686,086	-	2,686,086
Short term placements with other banks				
Domestic	-	10,011,849	-	10,011,849
Foreign	-	3,653,594	-	3,653,594
Placements with other banks with original maturities of more than three months	-	984,554,529	-	984,554,529
Loans and advances to customers	**-**	**-**	**3,004,781,127**	**2,841,591,634**
Corporate loans	-	-	1,314,589,399	1,243,649,419
Loans to small and medium business	-	-	705,533,429	653,898,931
Consumer loans to individuals	-	-	683,522,229	639,753,933
Mortgage loans to individuals	-	-	301,136,070	304,289,351
Debt securities at AC	**-**	**4,678,897**	**-**	**4,741,411**
Other financial assets	**-**	**6,119,202**	**-**	**6,119,202**
Total financial assets carried at amortised cost	**126,009,968**	**1,962,650,746**	**3,004,781,127**	**4,930,314,862**

39 Fair Value Disclosures (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2019 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with central bank (other than mandatory reserve)	**104,767,167**	**1,005,485,340**	**-**	**1,110,252,507**
Cash on hand	104,767,167	-	-	104,767,167
Current account with the central bank		1,005,485,340	-	1,005,485,340
Mandatory cash balances with the Bank of Mongolia	**-**	**291,911,405**	**-**	**291,911,405**
Due from other banks	**-**	**906,564,709**	**-**	**906,564,709**
Correspondent accounts with other banks				
Foreign	-	175,105,319	-	175,105,319
Domestic	-	10,776,841	-	10,776,841
Short term placements with other banks				
Domestic		-		-
Foreign		294,345		294,345
Placements with other banks with original maturities of more than three months	-	720,388,204	-	720,388,204
Loans and advances to customers	**-**	**-**	**3,172,132,784**	**3,172,132,784**
Corporate loans	-	-	1,369,359,069	1,369,359,069
Loans to small and medium business	-	-	683,590,239	683,590,239
Consumer loans to individuals	-	-	832,824,942	832,824,942
Mortgage loans to individuals	-	-	286,358,534	286,358,534
Debt securities at AC	**-**	**11,205,515**	**-**	**11,205,515**
Other financial assets	**-**	**13,613,277**	**-**	**13,613,277**
Total financial assets carried at amortised cost	**104,767,167**	**2,228,780,246**	**3,391,184,384**	**5,505,680,197**

39 Fair Value Disclosures (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2020 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	-	**14,638,962**	-	**14,638,962**
Short-term placements of other banks	-	14,638,962	-	14,638,962
Long-term placement of other banks	-	-	-	-
REPO Arrangements	-	**20,088,596**	-	**20,088,596**
Sale and repurchase agreements with other banks	-	20,088,596	-	20,088,596
Customer Accounts				
State and public organisations	-	**325,164,468**	-	**325,361,021**
- Current/settlement accounts	-	70,395,910	-	70,395,910
- Demand deposits	-	184,537,147	-	184,537,147
- Term deposits	-	70,231,411	-	70,427,964
Legal entities	-	**1,766,584,199**	-	**1,808,539,526**
- Current/settlement accounts	-	1,072,214,508	-	1,072,214,508
- Demand deposits	-	319,624,716	-	319,624,716
- Term deposits	-	374,744,974	-	416,700,302
Individuals	-	**3,025,585,733**	-	**3,085,685,582**
- Current/settlement accounts	-	259,533,209	-	259,533,209
- Demand deposits	-	542,637,015	-	542,637,015
- Term deposits	-	2,223,415,510	-	2,283,515,358
Other	-	**65,316,313**	-	**66,089,048**
- Current/settlement accounts	-	41,513,031	-	41,513,031
- Demand deposits	-	696,098	-	696,098
- Term deposits	-	23,107,184	-	23,879,919
Other borrowed funds	-	**1,202,264,649**	-	**1,202,264,649**
Provision for credit related commitments	-	**2,897,006**	-	2,897,006
Subordinated debt	-	-	-	-
Other financial liabilities	-	**83,831,222**	-	**83,831,222**
Total financial liabilities carried at amortised cost	**-**	**6,506,321,859**	**-**	**6,609,395,612**

39 Fair Value Disclosures (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2019 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	**-**	**52,928,512**	**-**	**52,928,512**
Short-term placements of other banks	-	20,070,762	-	20,070,762
Long-term placement of other banks	-	32,857,750	-	32,857,750
REPO Arrangements	**-**	**24,876,114**	**-**	**24,876,114**
Sale and repurchase agreements with other banks	-	24,876,114	-	24,876,114
Customer Accounts				
State and public organisations	**-**	**749,455,811**	**-**	**749,455,811**
- Current/settlement accounts	-	598,852,742	-	598,852,742
- Demand deposits	-	26,940,128	-	26,940,128
- Term deposits	-	123,662,941	-	123,662,941
Legal entities	**-**	**1,415,945,338**	**-**	**1,415,945,338**
- Current/settlement accounts	-	1,001,280,367	-	1,001,280,367
- Demand deposits	-	59,107,295	-	59,107,295
- Term deposits	-	355,557,676	-	355,557,676
Individuals	**-**	**2,683,544,463**	**-**	**2,683,544,463**
- Current/settlement accounts	-	205,586,435	-	205,586,435
- Demand deposits	-	433,531,162	-	433,531,162
- Term deposits	-	2,044,426,866	-	2,044,426,866
Other	**-**	**51,696,010**	**-**	**51,696,010**
- Current/settlement accounts	-	33,757,181	-	33,757,181
- Demand deposits	-	858,825	-	858,825
- Term deposits	-	17,080,004	-	17,080,004
Other borrowed funds	**-**	**916,032,162**	**-**	**916,032,162**
Subordinated debt	**-**	**172,027,616**	**-**	**172,027,616**
Other financial liabilities	**-**	**100,127,218**	**-**	**100,127,218**
Total financial liabilities carried at amortised cost	**-**	**6,166,633,244**	**-**	**6,166,633,244**

40 Presentation of Financial Instruments by Measurement Category

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2020:

In thousands of Mongolian Tugriks	Amortised cost	FVTPL	FVTOCI (with recycling)	FVTOCI (no recycling)	Total
Financial assets					
Cash and balances with central bank (other than mandatory reserve)	**561,259,957**	**-**	**-**	**-**	**561,259,957**
Cash on hand	126,009,968	-	-	-	126,009,968
Cash balances with the central bank (other than mandatory reserve)	435,249,989	-	-	-	435,249,989
Mandatory cash balances with the Bank of Mongolia	**243,458,197**	**-**	**-**	**-**	**243,458,197**
Investments in debt securities	4,678,897	116,890,897	1,242,830,826	-	**1,364,400,620**
Investments in equity securities	-	17,211,465	-	12,283,857	**29,495,322**
Due from other banks	**1,273,144,461**	**-**	**-**	**-**	**1,273,144,461**
Correspondent accounts with other banks:					
Foreign	272,238,403	-	-	-	272,238,403
Domestic	2,686,086	-	-	-	2,686,086
Short term placements with other banks					
Domestic	10,011,849	-	-	-	10,011,849
Foreign	3,653,594	-	-	-	3,653,594
Placements with other banks with original maturities of more than three months	984,554,529	-	-	-	984,554,529
Loans and advances to customers	**2,841,591,634**	**189,754,281**	**-**	**-**	**3,031,345,915**
Corporate loans	1,243,649,419	-	-	-	1,243,649,419
Loans to small and medium business	653,898,931	-	-	-	653,898,931
Consumer loans to individuals	639,753,933	-	-	-	639,753,933
Mortgage loans to individuals	304,289,351	-	-	-	304,289,351
Mortgage loans to be sold to MIK with recourse	-	166,753,553	-	-	166,753,553
Corporate loan classified FVTPL	-	24,335,791	-	-	24,335,791
Derivative financial instruments-asset	**-**	**205,614,803**	**-**	**-**	**205,614,803**
Repossessed financial assets	**-**	**-**	**-**	**121,292,776**	**121,292,776**
Other financial assets	**6,119,202**	**-**	**-**	**-**	**6,119,202**
Receivable from companies	5,201,377	-	-	-	5,201,377
Receivable from individuals	3,562,387	-	-	-	3,562,387
Receivables on cash and settlements services	942,541	-	-	-	942,541
Other financial assets	1,950,157	-	-	-	1,950,157
Less: Provision for impairment	(5,537,260)	-	-	-	(5,537,260)
Total Financial Assets	**4,930,252,348**	**529,471,446**	**1,242,830,826**	**133,576,633**	**6,836,131,253**

40 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019:

In thousands of Mongolian Tugriks	**Amortised cost**	**FVTPL**	**FVTOCI (with recycling)**	**FVTOCI (no recycling)**	**Total**
Financial assets					
Cash and balances with central bank (other than mandatory reserve)	**1,110,252,507**	**-**	**-**	**-**	**1,110,252,507**
Cash on hand	104,767,167	-	-	-	104,767,167
Cash balances with the central bank (other than mandatory reserve)	1,005,485,340	-	-	-	1,005,485,340
Mandatory cash balances with the Bank of Mongolia	**291,911,405**	**-**	**-**	**-**	**291,911,405**
Investments in debt securities	**11,205,515**	**106,342,392**	**169,387,815**	**-**	**286,935,722**
Investments in equity securities	**-**	**17,719,353**	**-**	**64,977,881**	**82,697,234**
Due from other banks	**906,564,709**	**-**	**-**	**-**	**906,564,709**
Correspondent accounts with other banks:					
Foreign	175,105,319	-	-	-	175,105,319
Domestic	10,776,841	-	-	-	10,776,841
Short term placements with other banks					
Domestic	-	-	-	-	-
Foreign	294,345	-	-	-	294,345
Placements with other banks with original maturities of more than three months	720,388,204	-	-	-	720,388,204
Loans and advances to customers	**3,172,132,784**	**134,561,528**	**-**	**-**	**3,306,694,312**
Corporate loans	1,369,359,069	-	-	-	1,369,359,069
Loans to small and medium business	683,590,239	-	-	-	683,590,239
Consumer loans to individuals	832,824,942	-	-	-	832,824,942
Mortgage loans to individuals	286,358,534	-	-	-	286,358,534
Mortgage loans to be sold to MIK with recourse	-	134,561,528	-	-	134,561,528
Derivative financial instruments-asset	**-**	**138,110,388**	**-**	**-**	**138,110,388**
Repossessed financial assets	**-**	**-**	**-**	**131,581,132**	**131,581,132**
Other financial assets	**13,613,277**	**-**	**-**	**-**	**13,613,277**
Receivable from companies	10,388,560	-	-	-	10,388,560
Receivable from individuals	5,041,448	-	-	-	5,041,448
Receivables on cash and settlements services	2,048,296	-	-	-	2,048,296
Other financial assets	1,859,265	-	-	-	1,859,265
Less: Provision for impairment	(5,724,292)	-	-	-	(5,724,292)
Total Financial Assets	**5,505,680,197**	**396,733,661**	**169,387,815**	**196,559,013**	**6,268,360,686**

41 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form.

In the normal course of business, the Bank and the Bank enters into transactions with its major shareholders, directors and other related parties. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. According to the Bank's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

Related party categories are as follows:

Immediate parent company	Golomt Financial Group LLC is the main shareholder of the Bank, refer to Note 1.
Entities under common control	Entities under common control are companies within Golomt Financial Group LLC and other companies the ultimate owner has control or significant influence.
Directors and key management personnel	The Board of Directors and executive managers of the Bank.

For information on the Bank's immediate and ultimate parent company, as well as ultimate controlling party as of 31 December 2020 and 31 December 2019, refer to Note 1.

41 Related Party Transactions (continued)

At 31 December 2020, the outstanding balances the Bank's related parties were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Gross amount of loans and advances to customers (effective interest rate 0% - 24%)	1,676,747	24,335,791	33,397,548	**59,410,086**
Customer accounts (contractual interest rate 0% - 14.5%)	3,004,981	11,427,654	177,247,265	**191,679,900**

At 31 December 2019, the outstanding balances with the Bank's related parties were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Gross amount of loans and advances to customers (effective interest rate 0% - 23.4%)	1,570,991	24,964,912	74,153,022	**100,688,925**
Customer accounts (contractual interest rate 0% - 15%)	1,454,575	445,220	202,985,720	**204,885,515**
Subordinated debts (contractual interest rate 12.6%)	-	172,027,616	-	**172,027,616**

41 Related Party Transactions (continued)

Movement in the loans and advances to the Bank's related party at 31 December 2020 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Contractual interest rate	**6% - 24%**	**3%**	**0% - 18.9%**	
Loans to customers				
Loans to customers as at 1 January 2020	**4,571,073**	**24,964,912**	**71,153,022**	**100,689,007**
Loans to customers issued during the year	1,650,707	-	885,478	**2,536,185**
Loans to customers repaid during the year	(4,554,467)	221,038	(46,277,767)	**(50,611,196)**
Accrued interest as at 31 December 2020	16,325	945,612	8,709,389	**9,671,326**
Less: Credit loss allowance	(6,891)	-	-	**(6,891)**
Losses on initial recognition of loans at rates below market	-	(1,795,771)	(1,072,574)	**(2,868,345)**
Exchange difference	-	-	-	**-**
Loans to customers as at 31 December 2020	**1,676,747**	**24,335,791**	**33,397,548**	**59,410,086**

41 Related Party Transactions (continued)

Movement in the loans and advances to the Bank's related party at 31 December 2019 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Contractual interest rate	**3% - 23.4%**	**0% - 3%**	**0% - 22.8%**	
Loans to customers				
Loans to customers as at 1 January 2019	**2,927,204**	**22,930,114**	**76,115,330**	**101,972,648**
Accrued interest as at 1 January 2019	16,164	-	1,093,575	**1,109,739**
Restated balance of loans to customers as at 1 January 2019	**2,943,368**	**22,930,114**	**77,208,905**	**103,082,387**
Loans to customers issued during the year	4,192,948	30,305,427	26,845,620	**61,343,995**
Loans to customers repaid during the year	(2,584,184)	(25,330,114)	(38,598,113)	**(66,512,411)**
Accrued interest as at 31 December 2019	19,768	-	9,335,738	**9,355,506**
Less: Credit loss allowance	(827)	-	(1,951,098)	**(1,951,925)**
Losses on initial recognition of loans at rates below market	-	(2,940,515)	(1,836,069)	**(4,776,584)**
Exchange difference	-	-	148,039	**148,039**
Loans to customers as at 31 December 2019	**4,571,073**	**24,964,912**	**71,153,022**	**100,689,007**

41 Related Party Transactions (continued)

Loans issued to key management are issued at preferential rates, as it is the case with loans issued to the Bank's employees (refer to Note 12). The terms offered to key management are not substantially different from those offered to other employees.

The customer accounts balances at the year-end and transactions with the Bank's related parties for 2020 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Contractual interest rate	**0% - 14.5%**	**0%**	**0%-13.5%**	
Customer accounts				
Customer accounts as at 01 January 2020	**1,454,576**	**445,220**	**202,985,719**	**204,885,515**
Customer accounts received during the year	17,574,355	97,952,344	2,437,710,307	2,553,237,006
Customer accounts repaid during the year	(16,124,558)	(86,971,978)	(2,467,378,106)	(2,570,474,642)
Accrued interest as at 31 December 2020	50,875	-	248,856	299,731
Exchange difference	49,733	2,068	3,680,489	3,732,290
Customer accounts as at 31 December 2020	**3,004,981**	**11,427,654**	**177,247,265**	**191,679,900**

The customer accounts balances at the year-end and transactions with the Bank's related parties for 2019 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Contractual interest rate	**0% - 15%**	**0% - 1.2%**	**0% - 13.5%**	
Customer accounts				
Customer accounts as at 01 January 2019	**1,843,336**	**477,468**	**2,049,646**	**4,370,450**
Accrued interest as at 1 January 2019	100,987	42,887	10,057	**153,931**
Restated balance of customer accounts as at 1 January 2019	**1,944,323**	**520,355**	**2,059,703**	**4,524,381**
Customer accounts received during the year	12,597,816	492,472,401	1,115,244,973	**1,620,315,190**
Customer accounts repaid during the year	(13,130,858)	(492,563,599)	(914,385,742)	**(1,420,080,199)**
Accrued interest as at 31 December 2019	12,455	-	50,599	**63,054**
Exchange difference	30,840	16,063	16,186	**63,089**
Customer accounts as at 31 December 2019	**1,454,576**	**445,220**	**202,985,719**	**204,885,515**

41 Related Party Transactions (continued)

The income and expense items with the Bank's related parties for the year ended 31 December 2020 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Interest income	170,398	945,612	5,484,986	**6,600,996**
Interest expense	110,819	21,628,621	2,445,751	**24,185,191**
Fee and commission income	2,795	6,579	66,510	**75,884**
Dividend paid	-	-	1,695,910	**1,695,91**
Service fee	-	2,913,240	-	**2,913,240**

The income and expense items with the Bank's related parties for the year ended 31 December 2019 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Total**
Interest income	189,652	-	10,723,561	**10,913,213**
Interest expense	87,719	8,875,435	1,434,404	**10,397,558**
Fee and commission income	2,788	7,081	71,654	**81,523**
Dividend paid	-	7,100,000	1,909,657	**9,009,657**
Equity cost	-	3,407,850	6,241,650	**9,649,500**

The outstanding balance of the guarantee issued for the Bank's related parties at the year-end is as follows:

In thousands of Mongolian Tugriks	**2020**	**2019**
Guarantee		
Bank guarantees as at 01 January	**239,270**	**1,720,434**
Guarantees issued / exchange revaluation	1,956,781	239,270
Guarantee closed	(435,861)	(1,720,434)
Total credit related commitments	**1,760,190**	**239,270**
Less: Provision for impairment of credit related commitments	-	-
Total credit related commitments	**1,760,190**	**239,270**

The Bank's Board of Directors and key management compensation is presented below:

In thousands of Mongolian Tugriks	**2020**	**2019**
Salaries	2,636,874	1,948,961
Bonuses	294,290	1,534,734
Social security contributions	189,702	418,719
Total	**3,120,866**	**3,902,414**

Directors and key management personnel mainly represent members of the Bank's Board of Directors and Executive Board.
Other related parties are mostly represented by companies controlled by the Bank's major shareholders and the Bank.

42 Event after the End of the Reporting period

Change in the Banking Law of Mongolia. Amendments to several laws, including the Law on Savings at Banks, Law on Central Bank, Banking Sector Stability Law and other regulations that accompany the amendments to the Banking Law were approved at the parliament meeting on 28 January 2021.

Effective implementation of the latest amendments to the Banking Law will result in reducing the bank ownership concentration and ensure balance of ownership-management-control in the banking structure.

Top 5 banks including Golomt bank are considered as systemically influential or important to the country's banking sector. In compliance with the amendments, the five influential banks will have to transform into a public company through an initial public offering on stock market before June 30, 2022. The revised law requires each shareholder and their associates to own not more than 20 percent of total shares issued by a commercial bank. All banks in the country must fulfil this obligation before December 31, 2023.

COVID-19 developments. The government has been working to take control over possible epicentres and prevent further spread. Due to the preventative measures, the government imposed temporary lock-downs. Since the latest lockdown, imposed during the Lunar New Year celebration between February 11th to February 23rd 2021, all industries are operating with caution except for hotel, hospitality and tourism and other similar sectors.

Mongolia has started vaccination in February 2021 with cooperation with World Health Organisation and other countries. UNICEF is supporting the Government of Mongolia to ensure the country is ready to introduce and deploy the vaccine. UNICEF is helping to upgrade Mongolia's capacity to safely and securely store vaccines across the country, addressing misinformation, and building trust in safe and effective vaccines and in the health systems that deliver them.

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

43 Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
AFS	Available For Sale
ALCO	The Asset and Liability Committee
BOM	Bank of Mongolia
DBM	Development Bank of Mongolia
CCF	Credit Conversion Factor
EAD	Exposure at default
ECL	Expected Credit Loss
EIR	Effective interest rate
FRC	Financial Regulatory Commission of Mongolia
FVTOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign exchange
HTM	Held To Maturity
IFRS	International Financial Reporting Standard
LGD	Loss given default
L&R	Loans and Receivables
MIK	Mongolian Mortgage Corporation
MNT	Mongolian Tugriks
MNCCI	Manufacturing and Processing of Leather Products
OCI	Other Comprehensive Income
PD	Probability of Default
RMBS	Residential mortgage-backed securities
SICR	Significant Increase in Credit Risk
SME	Small and Medium-sized Enterprises
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest
VaR	Value at risk