

KHAN BANK LLC
(Incorporated in Mongolia)

Audited Financial Statements
31 December 2021

KHAN BANK LLC

**TABLE OF CONTENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

CONTENTS	PAGE
GENERAL INFORMATION	1
STATEMENT BY CHAIRMAN AND EXECUTIVES	2
INDEPENDENT AUDITOR’S REPORT	3 – 4
ABBREVIATIONS	5
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	6
STATEMENT OF FINANCIAL POSITION	7
STATEMENT OF CHANGES IN EQUITY	8
STATEMENT OF CASH FLOWS	9 – 10
NOTES TO THE FINANCIAL STATEMENTS	11 – 97

KHAN BANK LLC

GENERAL INFORMATION

BOARD OF DIRECTORS

Ms. Daribum Tudev
Ms. Khulan Dashdavaa
Mr. Hideo Sawada
Mr. Baatarsaikhan Tsagaach
Mr. Etsuto Uehara
Mr. Aart Jongejans
Mr. John Law
Mr. Tamir Amarbayasgalan

CORPORATE SECRETARY

Mr. Ariuntulga Ochirpurev

REGISTERED OFFICE

Khan Bank Tower
Chingis Avenue 6, Stadium,
Orgil -1, Khan-Uul district,
Ulaanbaatar - 17010,
Mongolia

AUDITORS

Ernst & Young Mongolia Audit LLC
Certified Public Accountants

KHAN BANK LLC

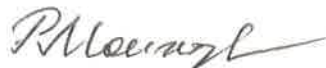
STATEMENT BY THE EXECUTIVES

We, Daribum T., being the Chairwoman of the Board of Directors of the Khan Bank LLC (the "Bank"), Munkhtuya R., being the Chief Executive Officer, Ulzii-Ayush Sh., being the VP, Finance and Administration, and Baasantsee N., being Head, Financial Management Department primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 5 to 97 present fairly, in all material respects the financial position of the Bank as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.




DARIBUM T.
Chairwoman of the Board


ULZII-AYUSH SH.
VP Finance and Administration



MUNKHTUYA R.
Chief Executive Officer


BAASANTSEE N.
Head, Financial Management Department

Ulaanbaatar, Mongolia
Date: 07 March 2022

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Khan Bank LLC

Opinion

We have audited the financial statements of Khan Bank LLC (the "Bank"), which comprise the statement of financial position as at 31 December 2021 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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 Responsibility 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 judgement 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.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of Khan Bank LLC

Auditor's Responsibility for the Audit of the Financial Statements (cont'd.)

- 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.

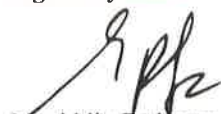
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

This report is made solely to the shareholders of the Bank, as a body, in connection with the audit requested by shareholders in accordance with Article 94 of the Company Law of Mongolia and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

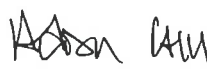


Signed by


Munkhjin Batbayar
Director

Ulaanbaatar, Mongolia
Date: 7 March 2022

Approved by


Adrian Chu
Partner

KHAN BANK LLC

ABBREVIATIONS

The following styles of abbreviations are used in these Financial Statements:

AC	Amortised cost
BoM	Bank of Mongolia
ECL	Expected credit loss
EIR	Effective interest rate
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
IFRS	International financial reporting standards
IBOR	Interbank offered rate
RFR	Risk free rate
FV	Fair value
ROU	Right of use
RMBS	Residential mortgage backed securities
MIK	Mongolian mortgage corporation
ROA	Return on assets
ROE	Return on equity

KHAN BANK LLC

Statement of profit or loss and other comprehensive income For the year ended 31 December 2021

	Notes	2021 MNT'000	2020 MNT'000
Interest income calculated using the effective interest method	4	1,139,951,636	1,070,069,841
Other interest and similar income	4	38,817,302	18,944,624
Interest and similar expenses using the effective interest method	5	(544,191,982)	(656,553,501)
Net interest income		634,576,956	432,460,964
Fee and commission income	6	212,086,407	159,625,125
Fee and commission expenses	6	(17,477,524)	(12,307,510)
Net fee and commission income		194,608,883	147,317,615
Gains from trading in foreign currencies		21,286,565	13,860,554
Losses from financial derivatives	7	(202,377)	(4,224,878)
Foreign exchange translation (loss)/gain		(1,696,325)	12,172,561
Other operating expense	8	(6,616,194)	(3,854,538)
Total operating income		841,957,508	597,732,278
Allowance for impairment losses	9	(87,819,440)	(65,431,570)
Net operating income		754,138,068	532,300,708
Operating expenses	10	(367,578,985)	(321,161,426)
Profit before tax		386,559,083	211,139,282
Income tax expense	11	(95,030,000)	(49,920,000)
Profit for the year		291,529,083	161,219,282
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders	12	1.69	0.87
Diluted, profit for the year attributable to ordinary equity holders	12	1.69	0.87
Other comprehensive income (net of tax):			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Revaluation losses on debt instruments at FVOCI	28	(7,582,061)	(3,617,499)
Cash flow hedge reserve movement	28	(8,461,169)	7,325,074
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Revaluation gain/(losses) on equity instruments at FVOCI	28	6,315	(7,898)
Revaluation of premises	28	–	64,792,320
Other comprehensive (loss)/income		(16,036,915)	68,491,997
Total comprehensive income for the year, net of tax		275,492,168	229,711,279

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

KHAN BANK LLC
Statement of financial position as at 31 December 2021

		2021	2020
	Notes	MNT'000	MNT'000
ASSETS			
Cash and cash equivalents	13	4,526,979,979	4,827,975,047
Mandatory reserves with Bank of Mongolia	13	809,081,732	743,335,598
Due from banks	14	–	85,400,721
Derivative financial instruments	15	27,086,528	82,094,281
Loans and advances to customers	16	6,589,298,799	4,925,483,235
Financial assets at FVPL	17	149,905,024	113,040,064
Debt instruments at FVOCI	17	206,007,659	201,033,487
Equity instruments at FVOCI	17	3,157,209	3,148,784
Debt instruments at AC	17	553,088,798	529,202,397
Investments in associates	18	301,888	301,888
Other assets	19	78,094,830	76,142,085
Properties and equipment	20	455,595,092	465,928,170
Intangible assets	21	54,764,803	50,718,804
Right-of-use assets	22	10,086,653	7,362,765
TOTAL ASSETS		13,463,448,994	12,111,167,326
LIABILITIES			
Due to banks	23	35,854,280	25,825,049
Repurchase agreement	24	620,802,675	184,890,799
Due to customers	25	10,211,450,727	9,370,844,845
Derivative financial instruments	15	319,756	206,964
Borrowed funds	26	1,191,916,946	1,173,586,423
Other liabilities	27	100,761,094	105,019,286
Lease liabilities	22	11,085,695	7,960,407
Current income tax liabilities	11.3	2,167,852	6,155,494
Deferred tax liabilities	11.2	4,579,593	7,467,039
TOTAL LIABILITIES		12,178,938,618	10,881,956,306
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Ordinary shares	28	172,097,820	58,071,253
Treasury stock	28	–	(7,589,226)
Other reserves	28	94,278,825	112,569,423
Retained earnings		1,018,133,731	1,066,159,570
TOTAL EQUITY		1,284,510,376	1,229,211,020
TOTAL LIABILITIES AND EQUITY		13,463,448,994	12,111,167,326

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

KHAN BANK LLC
Statement of changes in equity
For the year ended 31 December 2021

	Ordinary shares MNT'000 (Note 28)	Treasury stock MNT'000 (Note 28)	Other reserves MNT'000 (Note 28)	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2020	52,792,048	(2,183,728)	44,958,724	1,097,929,100	1,193,496,144
Profit for the year	–	–	–	161,219,282	161,219,282
Other comprehensive income	–	–	68,491,997	–	68,491,997
Total comprehensive income	–	–	68,491,997	161,219,282	229,711,279
Changes in equity	5,279,205	(5,405,498)	–	(193,870,110)	(193,996,403)
Realised revaluation reserve	–	–	(881,298)	881,298	–
At 31 December 2020	58,071,253	(7,589,226)	112,569,423	1,066,159,570	1,229,211,020
At 1 January 2021	58,071,253	(7,589,226)	112,569,423	1,066,159,570	1,229,211,020
Profit for the year	–	–	–	291,529,083	291,529,083
Other comprehensive income	–	–	(16,036,915)	–	(16,036,915)
Total comprehensive income	–	–	(16,036,915)	291,529,083	275,492,168
Changes in equity	114,026,567	7,589,226	–	(141,808,605)	(20,192,812)
Dividends (Note 28)	–	–	–	(200,000,000)	(200,000,000)
Realised revaluation reserve	–	–	(2,253,683)	2,253,683	–
At 31 December 2021	172,097,820	–	94,278,825	1,018,133,731	1,284,510,376

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

KHAN BANK LLC
Statement of cash flows
For the year ended 31 December 2021

		2021	2020
	Notes	MNT'000	MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		386,559,083	211,139,282
Adjustments to reconcile profit before tax to net cash flow:			
Changes in fair value of financial derivatives		43,924,483	42,849,196
Expected credit loss (ECL) expenses	9	87,819,440	65,431,570
Fair value changes of unquoted investment	32	2,327,236	–
Depreciation of property and equipment	10	54,368,851	52,901,548
Amortisation of intangible assets	10	17,703,043	10,897,441
Depreciation of rights-of-use assets	10	7,511,435	7,171,432
Property and equipment written-off	20	1,022,560	544,999
Intangible assets written-off	21	–	1,513
Loss/(Gain) on disposal of property and equipment		(10,099)	47,053
Loss on disposal of foreclosed properties		120,302	–
Loss/(Gain) on disposal of debt instruments at FVOCI		(2,252,900)	3,438,877
Net loss on revaluation of premises	10, 32	–	2,582,396
Accretion interest on lease liability	22	1,412,573	1,780,891
Interest expense on borrowings		41,492,260	62,477,557
Unrealised foreign exchange loss/(gains), net		1,234,391	(25,814,813)
Net modification loss	8	5,576,148	6,070,711
Interest amortisation from modification loss		(8,492,399)	–
Movement on cash flow hedge reserve		(169,896)	4,282,832
Non-cash items arising from financing activities		(2,700,894)	2,237,148
Operating profit before working capital changes		637,445,617	448,039,633
Changes in operating assets:			
Statutory deposits with BoM		(70,264,098)	14,993,156
Due from banks		87,348,116	33,667,708
Loans and advances to customers		(1,724,922,131)	(356,504,817)
Other assets		(21,139,465)	(29,119,384)
Prepayment of right-of-use assets		–	(465,859)
Changes in operating liabilities:			
Due to banks		11,975,550	(86,934,454)
Repurchase agreements		435,911,876	(12,980,198)
Due to customers		839,944,157	2,151,881,534
Other liabilities		(25,539,724)	22,415,857
Cash generated from operations		170,759,898	2,184,993,176
Interest paid		(45,969,574)	(76,395,530)
Interest portion of the lease payment	22	(1,412,573)	(1,780,891)
Income tax paid	11.3	(96,559,450)	(53,290,038)
Net cash flows generated from operating activities		26,818,301	2,053,526,717
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial investments		(626,934,969)	(1,274,340,337)
Proceeds from disposal of financial investments		546,817,503	1,185,496,823
Proceeds from disposal of property and equipment		693,349	310,907
Purchase of property and equipment	20	(45,741,583)	(51,719,561)
Purchase of intangible assets	21	(21,749,042)	(20,346,106)
Net cash flows used in investing activities		(146,914,742)	(160,598,274)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of borrowed funds		715,271,479	299,473,115
Repayment of borrowed funds		(688,946,113)	(469,563,774)
Repayment of subordinated debt		–	(55,339,500)
Dividend paid	28	(200,000,000)	–
Repurchase of shares	28	–	(193,996,403)
Principle portion of lease payment	28	(7,110,035)	(6,944,925)
Net cash flows used in financing activities		(180,784,669)	(426,371,487)
Net (decrease)/increase in cash and cash equivalents		(300,881,110)	1,466,556,956
Cash and cash equivalents brought forward		4,829,214,865	3,362,657,909
Cash and cash equivalents carried forward	13	4,528,333,755	4,829,214,865

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

KHAN BANK LLC
Statement of cash flows (cont'd)
For the year ended 31 December 2021

		2021 MNT'000	2020 MNT'000
NON CASH MOVEMENT			
Revaluation of premises	28	–	64,792,320
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		1,167,678,154	984,572,338
Interest paid		551,502,060	488,173,602

The reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities is as follows:

	Borrowed funds MNT'000	Subordinated debt MNT'000	Lease liability MNT'000	Total MNT'000
At 1 January 2021	1,173,586,423	–	7,960,407	1,181,546,830
New disbursement/additions	715,271,479	–	–	715,271,479
Repayment classified as financing activity	<u>(688,946,113)</u>	<u>–</u>	<u>(7,110,035)</u>	<u>(696,056,148)</u>
Net addition/(repayment)	26,325,366	–	(7,110,035)	19,215,331
New leases	–	–	10,235,323	10,235,323
Deferred upfront fee	(5,300,696)	–	–	(5,300,696)
Modification gain and unwinding of interest	<u>969,733</u>	<u>–</u>	<u>–</u>	<u>969,733</u>
Non-cash movements	(4,330,963)	–	10,235,323	5,904,360
Interest repayment classified as operating activity	(45,969,574)	–	(1,412,573)	(47,382,147)
Interest expense accrued and deferral amortisation	44,092,062	–	1,412,573	45,504,635
Foreign exchange movement	<u>(1,786,368)</u>	<u>–</u>	<u>–</u>	<u>(1,786,368)</u>
At 31 December 2021	<u>1,191,916,946</u>	<u>–</u>	<u>11,085,695</u>	<u>1,203,002,641</u>
At 1 January 2020	1,308,695,905	56,316,854	14,905,332	1,379,918,091
New disbursement	299,473,115	–	–	299,473,115
Repayment classified as financing activity	<u>(469,563,774)</u>	<u>(55,339,500)</u>	<u>(6,944,925)</u>	<u>(531,848,199)</u>
Net repayment	(170,090,659)	(55,339,500)	(6,944,925)	(232,375,084)
Deferred upfront fee	(883,324)	–	–	(883,324)
Modification gain	<u>(1,129,808)</u>	<u>22,509</u>	<u>–</u>	<u>(1,107,299)</u>
Non-cash movements	(2,013,132)	22,509	–	(1,990,623)
Interest repayment classified as operating activity	(73,673,575)	(2,721,955)	(1,780,891)	(78,176,421)
Interest expense accrued and deferral amortization	64,545,925	1,029,595	1,780,891	63,128,640
Foreign exchange movement	<u>46,121,959</u>	<u>692,497</u>	<u>–</u>	<u>46,814,456</u>
At 31 December 2020	<u>1,173,586,423</u>	<u>–</u>	<u>7,960,407</u>	<u>1,181,546,830</u>

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

1. Corporate information

KHAN Bank LLC (the “Bank”) is engaged in the business of providing banking and financial services pursuant to License No. 2 issued by the Bank of Mongolia (“BoM”) on 22 November 2006.

The Bank is a limited liability company incorporated and domiciled in Mongolia. Its registered office is at Khan Bank Tower, Chingis Avenue 6, Stadium, Orgil -1, Khan-Uul district, Ulaanbaatar - 17010, Mongolia.

The holding company of the Bank is Sawada Holding Co. Ltd, a company incorporated in Japan and listed on the Tokyo Stock Exchange.

The financial statements for the year ended 31 December 2021 were approved for issue by the Chief Executive Officer on 7 March 2022 as authorised by Board of Directors.

2. Accounting policies**2.1 Basis of preparation**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis, except for debt and equity instruments at FVOCI, financial assets at fair value through profit and loss, derivative financial instruments and properties that have been measured at fair value. The financial statements are presented in Mongolian Tugrik (MNT), which is the functional currency of the Bank and all values are rounded to the nearest thousands, except when otherwise indicated.

2.2 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 34.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts without being contingent on a future event and there is an intention to settle on a net basis in all of the following circumstances:

- The normal course of business;
- The event of default;
- The event of insolvency or bankruptcy of the Bank and/or the counterparties.

Derivative assets and liabilities with master netting arrangements are only presented net when they satisfy the eligibility of netting for all of the above criteria and not just in the event of default.

2.3 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective as of 1 January 2021. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Amendments and interpretations apply for the first time in 2021, but do not have an impact on the financial statements of the Bank.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2021, unless otherwise stated. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the financial statements of the Bank. The Bank intends to use the practical expedients in future periods if they become applicable.

2. Accounting policy (cont'd.)**2.3 Changes in accounting policy and disclosures (cont'd)****Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. The Bank has not received Covid-19 related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

2.4 Standards issued but not yet effective

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

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

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

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

- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 Revenue from Contracts with Customers or IAS 37 Provisions, Contingent Liabilities and Contingent Assets) to the other components

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendment does not have any impact on the Bank's financial statements.

2. Accounting policy (cont'd.)**2.4 Standards issued but not yet effective (cont'd)*****Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16***

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

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

IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

Reference to the Conceptual Framework - Amendments to IFRS 3

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

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have an impact on the Bank.

Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank expecting to apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The bank is still in the process of assessing the impact of these amendments.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Bank.

2. Accounting policy (cont'd.)**2.4 Standards issued but not yet effective (cont'd)*****Disclosure of Accounting policies - Amendments to IAS 1 and IFRS Practice Statement 2***

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

2.5 Summary of significant accounting policies**Foreign currency translation**

The functional currency of the Bank is the Mongolian Tugrik (MNT). Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to other operating income/expense in profit and loss. Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. USD/MNT exchange rate as at 31 December 2021 and 31 December 2020 were 2,848.80 and 2,849.51, respectively.

Recognition of interest income*The effective interest rate method*

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the gross carrying amount or, amortised cost as appropriate of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in profit or loss.

The IBOR reform Phase 2 amendments allow as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the statement of profit or loss for both interest income and interest expense to provide symmetrical and comparable information.

In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out above.

Other interest income/expense includes interest on derivatives in economic hedge relationships and all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Recognition of interest income (cont'd)***Interest and similar income/expense (cont'd)*

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as “Stage 3”, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net interest income.

Fees and commission income

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

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time unless otherwise specified in below.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer. Fee income can be divided into the following two categories:

Fee income from providing transaction services

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

The Bank provides a wide range of financial services in exchange for fee or commission income. As to depict the pattern of delivery of services, all of the commission income generated from provision of financial services, such as commission on operations with payment cards fees and commission on mobile-service provided fees which are not an integral part of the effective yield, are recognised on a point-in-time basis, i.e. when the performance obligation is completed. Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as applicable to the other participants.

Fee income forming an integral part of the corresponding financial instrument

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

Losses from financial derivatives

Results arising from trading activities include all gains and losses from changes in fair value of financial assets and financial liabilities ‘held-for-trading’ including derivatives.

Financial instruments - initial recognition*Date of recognition*

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers’ account. The Bank recognises due to customer balances when funds reach the Bank.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Financial instruments - initial recognition (cont'd)***Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI
- FVPL

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments. The Bank estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself. Details of this are further explained in Note 32 Fair value measurement.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Financial assets and liabilities*****Due from banks, Loans and advances to customers, Financial assets at amortised cost***

The Bank only measures Due from banks, Loans and advances to customers and other financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Derivatives recorded at fair value through profit or loss

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

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

The Bank enters into derivative transactions with various counterparties. These include long term cross currency swaps, short term forward foreign exchange contracts and short term FX swap contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in losses from financial derivatives unless hedge accounting is applied.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Financial assets and liabilities (cont'd)*****Equity instruments at FVOCI***

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Debt instruments at FVOCI

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained in Note 30. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in-first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost using the EIR methodology. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance as set out in Note 30.

The premium received is recognised in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL, if any are disclosed in Note 30.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Financial assets and liabilities (cont'd)*****Due to customers***

This includes current, savings, time deposits and bank guarantee fund from customers.

After initial measurement, due to customers are subsequently measured at amortised cost using the EIR.

Due to banks

This includes deposits from other banks and financial institutions in foreign currency and local currency accounts and time deposits placed by local and foreign commercial banks and BoM. After initial measurement, due to banks are subsequently measured at amortised cost using the EIR.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Modification of financial assets and liabilities***Modification of financial assets***

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations, the Bank performs an assessment to determine whether the modifications result in the derecognition of that financial asset. For financial assets, this assessment is based on qualitative factors.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Modification of financial liabilities

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortised cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability's original EIR. Any resulting difference is recognised immediately in profit or loss.

For financial liabilities, the Bank considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

Derecognition of financial assets***Derecognition due to substantial modification of terms and conditions***

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

In the context of IBOR reform, the Bank's assessment of whether a change to an amortised cost financial instrument is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an RFR to be treated as a change to a floating interest rate.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Derecognition of financial assets (cont'd)*****Derecognition other than for substantial modification****Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients;

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

The derivatives, are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event and the Bank also intends to settle on a net basis in all the following circumstances:

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Offsetting of financial assets and financial liabilities (cont'd)**

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties

The relevant notional amounts are still disclosed in Note 15 of the financial statements.

Impairment of financial assets***Overview of the ECL principles***

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 30.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECL.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- | | |
|-----|---|
| PD | The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. |
| EAD | The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. |
| LGD | The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD. |

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and downside). Each of these is associated with different PDs, EADs and LGDs.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Impairment of financial assets (cont'd)*****Calculation of ECLs (cont'd)***

When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

Stage 1:	The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 3:	For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
POCI	POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.
Loan commitments and letters of credit	When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Other liabilities.
Financial guarantee contracts	The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in profit or loss, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within Other liabilities.

Impact on modelled ECL allowance

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. Due to effect of Covid-19, several governmental support programmes and customer payment reliefs were applied by Bank under regulation and which have dislocated the correlation between economic conditions and defaults on which models are based. Otherwise, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio and segment. Management judgemental adjustments are required to help ensure that an appropriate amount of ECL impairment is recognised. As a result, the Bank expects post-model adjustments will be applied for the foreseeable future or when the government reliefs are ceased. Post-model adjustments made in estimating the reported ECL as at 31 December 2021 are set out in Note 16.

Post-model adjustments

Post-model adjustments represent adjustments in relation to data and model limitations as a result of Covid-19 disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. They include the effect of government and other support programmes.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Impairment of financial assets (cont'd)*****Debt instruments measured at fair value through OCI***

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects its expectations of customer behaviour, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECL for these products, is twelve months for credit cards and thirty-six months for overdrafts.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECL for credit cards and overdrafts is based on annualised the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest.

Forward looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP
- Inflation
- Unemployment rate
- Policy rate
- FX rate

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on an annual basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

Guarantees held are included in the measurement of loan ECLs when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended. Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL as an off-balance sheet item.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Collateral repossessed**

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option and which expected to be sold within twelve months are transferred to "Assets held for sale" at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date. Assets that are expected to be sold beyond twelve months are included in "Other assets" and are measured at the lower of the cost and fair value less costs to sell.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to Allowance for impairment losses.

Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy.

Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Departments. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

When the loan has been renegotiated or modified but not derecognised, the Bank considers that there has been a significant increase in credit risk and thus classifies the loan as Stage 2. Once an asset has been classified as forborne, it will remain forborne until it is reclassified out of the forborne category by meeting following criteria:

- All of its facilities have to be considered performing
- Regular and timely payments have been made during a six-month period according to the renewed repayment schedule
- The customer does not have any contracts that are more than 30 days past due

Details of forborne loans are disclosed in Note 30.

Hedge accounting

For the purpose of hedge accounting, the Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, the Bank applies one of three types of hedge accounting: fair value hedges; cash flow hedges; or hedges of a net investment in a foreign operation.

Transactions that are entered into in accordance with the Bank's hedging objectives, but do not qualify for hedge accounting, are referred to in these financial statements as economic hedge relationships.

At inception, the Bank formally documents how the hedging relationship meets the hedge accounting criteria. It also records the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis.

In order to qualify for hedge accounting, a hedging relationship must be expected to be highly effective on a prospective basis and it needs to be demonstrated that it was highly effective in the previous designated period (i.e., one month). A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk are expected to be offset by the hedging instrument in a range of 80% to 125%. The hedge accounting documentation includes the method and results of the hedge effectiveness assessment.

To calculate the changed in fair value of the hedged item attributable to the hedged risk, the Bank uses the hypothetical derivative method. The hypothetical derivative method involves establishing a notional derivative that would be the ideal hedging instrument for the hedged exposure (normally an interest rate swap or forward contract with no unusual terms and a zero fair value at inception of the hedge relationship).

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Hedge accounting (cont'd)**

The fair value of the hypothetical derivative is then used as a proxy for the net present value of the hedged future cash flows against which changes in value of the actual hedging instrument are compared to assess effectiveness and measure ineffectiveness.

The Bank applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (RFR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

IBOR reform Phase 1 also requires that for hedging relationships affected by IBOR reform, the Bank must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. Further, the Bank is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as future payments of borrowings denominated in foreign currencies) or a highly probable forecast transaction and could affect profit or loss.

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in OCI within equity (cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in losses from financial derivatives in profit or loss. When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in OCI at that time remains in OCI and is recognised when the hedged forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to profit or loss.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation
- The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items

To test the hedge effectiveness, the Bank compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g., changes in the forward exchange rates or interest rate risk) as represented by a hypothetical derivative.

IBOR reform Phase 1 requires that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, unrestricted current accounts with BoM and Government treasury bills and amounts due from banks on demand or with an original maturity of three months or less.

Mandatory cash balances with the Bank of Mongolia

Mandatory cash balances with the Bank of Mongolia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Repurchase agreements (cont'd)**

The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

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

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

Leases

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

Bank as a lessee

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases

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

Significant judgement in determining the lease term of contracts with renewal options

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

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Leases (cont'd)*****Bank as a lessee (cont'd)******Significant judgement in determining the lease term of contracts with renewal options (cont'd)***

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

The Bank included the renewal period as part of the lease term for leased office spaces due to the significance of these assets to its branch operations.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as other income in the period in which they are earned.

Property, equipment and right-of-use assets

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates. Right-of-use assets are presented separately from property and equipment in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation of owned assets is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Land and buildings	30 - 67 years
Computer hardware	3 - 10 years
Office furniture and equipment	10 years
Motor vehicles	10 years

Property and equipment transferred from customers is initially measured at fair value at the date on which control is obtained.

Buildings are subsequently measured at fair value less accumulated depreciation and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The frequency of revaluations depends upon the changes in fair values of the buildings being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

Some buildings may experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for buildings with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

A revaluation surplus is credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation surplus to retained earnings is made for an amount equal to the excess depreciation on revalued assets. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Property, equipment and right-of-use assets (cont'd)**

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

Intangible assets

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

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as part of 'other operating expense' in profit or loss. The land rights have indefinite useful lives and are tested for impairment annually.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software (core banking software)	5 years
---	---------

Impairment of non-financial assets

The Bank assesses at each statement of financial position date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded peer companies or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each statement of financial position date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement in other operating expenses.

Employee benefits**Short term benefits**

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

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Employee benefits (cont'd)*****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.

Taxes***Current tax***

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the country where the Bank operates and generates taxable income.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the statement of profit or loss except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the statement of profit or loss together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive management committee whose members are responsible for allocating resources and assessing performance of the operating segments.

Equity and dividends on ordinary shares

Ordinary shares are classified as equity. The transaction costs of an equity transaction are accounted for as a deduction from the equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Other reserves

The other reserves recorded in equity on the Bank's statement of financial position include:

2. Accounting policy (cont'd.)**2.5 Summary of significant accounting policies (cont'd)****Other reserves (cont'd)***Asset revaluation reserves*

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

Fair value reserves

The fair value reserves comprises of the cumulative net change in the fair value of the debt instruments classified at FVOCI, less the allowance for ECL, and the cumulative net change in fair value of equity instruments at FVOCI.

Cash flow hedge reserve

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

Transactions with related parties

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. All material transactions and balances with the related parties are disclosed in the relevant notes to the financial statements and the detail is presented in Note 33.

2.6 Significant accounting judgements, estimates and assumptions

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

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

Covid-19

The Covid-19 outbreak was first reported near the end of 2019. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the Covid-19 outbreak to be a pandemic.

The Covid-19 pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities. Therefore, the Bank carefully considered whether additional disclosures are necessary in order to help users of financial statements understand the judgements applied in the financial statements.

2. Accounting policy (cont'd.)**2.6 Significant accounting judgements, estimates and assumptions (cont'd)****Fair value of financial instruments**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish the fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 32.

Hedge accounting

The Bank designates certain derivatives (cross-currency swaps) as hedges of a particular risk associated with the cash flows of recognised liabilities (foreign currency borrowings from International Financial Institutions).

Starting from the first quarter of 2014, the Bank participated in a new long term swap program with the central bank. The Bank has agreed long term USD/MNT swaps ranging in maturity from a minimum of 1 year to a maximum of 5 years.

The Bank has started applying hedge accounting from 1 May 2016. As at 31 December 2021, the Bank had an unrealised loss of MNT 1,670,161 thousand (31 December 2020: unrealised gain of MNT 6,791,008 thousand) relating to the long term swap contracts included in Cash flow hedge reserve (see Note 28).

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's Expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime expected credit loss (LTECL) basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic inputs, such GDP, inflation, policy rate, FX rate, unemployment rate, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impact of Covid-19 on the provision for impairment

In response to Covid-19 and the Bank's expectations of economic impacts, the key conditions and assumptions utilised in the Bank's calculation of ECL have been revised. The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are assessed. Notwithstanding that credit model inputs and assumptions, including forward looking macroeconomic assumptions, were revised in response to the Covid-19 pandemic, the fundamental credit model and methodology underpinning the Bank's calculation of ECL have remained consistent with prior year. In addition, the Bank has embedded the impact in their estimation process by applying post-model adjustment and incorporated the relevant information in the disclosure (See Note 16).

Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it may be involved in litigations, arbitrations and regulatory investigations and proceedings in Mongolia arising in the ordinary course of the Bank's business.

2. Accounting policy (cont'd.)**2.6 Significant accounting judgements, estimates and assumptions (cont'd)****Provisions and other contingent liabilities (cont'd)**

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be probable but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. For further details on provisions and other contingencies see Note 29.

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

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

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the credit rating, or to reflect the terms and conditions of the lease).

3. Segment reporting

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker ('CODM'), and for which discrete financial information is available. The CODMs are executive management committee members of the Bank. The functions of the CODM are performed by the Board of Directors of the Bank.

The Bank is organised on the basis of five main business segments based on products and services, as follows:

- *Retail banking*: Includes private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages.
- *SME banking*: Includes current, demand and term deposit accounts, overdrafts, loan and other credit facilities, business consultation and other advices.
- *Corporate banking*: Includes current, demand and term deposit accounts, overdrafts, loan and other credit facilities
- *Treasury banking*: Undertakes the Bank's funding and centralised risk management activities through borrowings, use of derivatives for risk management purposes and investing in assets such as short-term placements and corporate and government debt securities. Operation is the Bank's funds management activities.
- *Others*: Includes Headquarter operations and central shared services operation that manages the Bank's premises and certain corporate costs.

As the Bank's operations are located in Mongolia, no further geographical segment information is provided. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2021 or 2020.

3. Segment reporting (cont'd)

At 31 December 2021	Retail Banking MNT'000	SME Banking MNT'000	Corporate Banking MNT'000	Treasury MNT'000	Others MNT'000	Total MNT'000
Interest income calculated using effective interest rate	611,298,973	103,529,239	111,259,686	282,119,068	31,744,670	1,139,951,636
Other interest and similar income	–	–	–	38,817,302	–	38,817,302
Interest expense calculated using effective interest rate	(428,003,799)	(4,247,570)	(16,735,241)	(91,375,866)	(3,829,506)	(544,191,982)
Intersegment interest income/(expense), net	240,310,435	(55,526,415)	(47,345,776)	(193,245,154)	55,806,910	–
Net interest income	423,605,609	43,755,254	47,178,669	36,315,350	83,722,074	634,576,956
Fees and commission income	114,884,261	903,188	2,824,995	1,933,684	91,540,279	212,086,407
Fees and commission expense	–	–	(1,088,252)	(4,783,707)	(11,605,565)	(17,477,524)
Net fee and commission income	114,884,261	903,188	1,736,743	(2,850,023)	79,934,714	194,608,883
Gains from trading in foreign currencies	5,873,330	444,958	1,455,803	13,512,474	–	21,286,565
Loss from financial derivatives	–	–	–	(202,377)	–	(202,377)
Foreign exchange translation gain/(loss)	–	–	–	(1,696,534)	209	(1,696,325)
Other operating (expense)/income	493,242	6,085	–	(2,326,529)	(4,788,992)	(6,616,194)
Total operating income	544,856,442	45,109,485	50,371,215	42,752,361	158,868,005	841,957,508
Allowance for impairment losses	(19,230,684)	(24,487,928)	(20,517,165)	(22,921,637)	(662,026)	(87,819,440)
Net operating income	525,625,758	20,621,557	29,854,050	19,830,724	158,205,979	754,138,068
Operating expenses	(185,147,840)	(4,349,699)	(3,741,320)	(3,128,117)	(171,212,009)	(367,578,985)
Segment profit(loss) before taxation	340,477,918	16,271,858	26,112,730	16,702,607	(13,006,030)	386,559,083
Income tax expense*	(80,977,081)	(3,869,994)	(6,210,484)	(3,972,441)	–	(95,030,000)
Profit for the year	259,500,837	12,401,864	19,902,246	12,730,166	(13,006,030)	291,529,083
Total assets	4,817,273,989	1,038,128,830	898,012,120	5,394,186,731	1,315,847,324	13,463,448,994
Total liabilities	9,013,801,421	353,729,486	834,161,229	1,497,611,250	479,635,232	12,178,938,618

3. Segment reporting (cont'd)

At 31 December 2020	Retail Banking MNT'000	SME Banking MNT'000	Corporate Banking MNT'000	Treasury MNT'000	Others MNT'000	Total MNT'000
Interest income calculated using effective interest rate	618,092,780	79,939,004	87,925,834	263,039,132	21,073,091	1,070,069,841
Other interest and similar income	(3,073,838)	3,073,838	–	18,944,624	–	18,944,624
Interest expense calculated using effective interest rate	(500,154,171)	(12,789,479)	(31,209,429)	(107,862,613)	(4,537,809)	(656,553,501)
Intersegment interest income/(expense), net	176,729,456	(43,740,158)	(23,716,265)	(157,378,601)	48,105,568	–
Net interest income	291,594,227	26,483,205	33,000,140	16,742,542	64,640,850	432,460,964
Fees and commission income	98,479,844	881,328	2,542,380	1,884,086	55,837,487	159,625,125
Fees and commission expense	–	–	–	(3,687,010)	(8,620,500)	(12,307,510)
Net fee and commission income	98,479,844	881,328	2,542,380	(1,802,924)	47,216,987	147,317,615
Gains from trading in foreign currencies	5,687,615	296,934	2,072,446	5,803,559	–	13,860,554
Loss from financial derivatives	–	–	–	(4,224,878)	–	(4,224,878)
Foreign exchange translation gain	–	–	–	12,172,561	–	12,172,561
Other operating (expense)/income	1,385,554	301	–	344	(5,240,737)	(3,854,538)
Total operating income	397,147,240	27,661,768	37,614,966	28,691,204	106,617,100	597,732,278
Allowance for impairment losses	(24,255,288)	(21,569,128)	(6,504,596)	(12,217,319)	(885,239)	(65,431,570)
Net operating income	372,891,952	6,092,640	31,110,370	16,473,885	105,731,861	532,300,708
Operating expenses	(186,652,989)	(2,897,337)	(4,387,723)	(4,404,423)	(122,818,954)	(321,161,426)
Segment profit(loss) before taxation	186,238,963	3,195,303	26,722,647	12,069,462	(17,087,093)	211,139,282
Income tax expense*	(40,736,085)	(698,910)	(5,845,050)	(2,639,955)	–	(49,920,000)
Profit for the year	145,502,878	2,496,393	20,877,597	9,429,507	(17,087,093)	161,219,282
Total assets	3,289,921,323	981,664,201	835,332,312	5,684,514,546	1,319,734,944	12,111,167,326
Total liabilities	8,115,643,943	163,478,593	978,139,056	1,245,537,234	379,157,480	10,881,956,306

*Allocation of income tax expense for each segment is calculated using the effective income tax rate of 24.6% for 2021, (2020: 23.6%). (Note 11.1)

4. Interest and similar income

	2021	2020
	MNT'000	MNT'000
<i>Interest income calculated using the effective interest method</i>		
Loans and advances to customers at amortised cost	848,640,512	790,678,715
Cash and cash equivalent	236,116,893	200,056,446
Debt instruments at amortised cost	42,679,618	52,494,968
Debt instruments at fair value through other comprehensive income	10,327,272	16,156,444
Due from banks	2,187,341	10,683,268
	1,139,951,636	1,070,069,841
<i>Other interest and similar income</i>		
Loans and advances to customers at fair value through profit or loss	26,166,587	7,804,217
Debt instruments at fair value through profit or loss	12,650,715	11,140,407
	38,817,302	18,944,624
	1,178,768,938	1,089,014,465

5. Interest and similar expenses

	2021	2020
	MNT'000	MNT'000
<i>Interest expense calculated using the effective interest method</i>		
Due to customers	452,518,952	558,596,457
Borrowed funds	45,930,148	64,835,299
Due to banks	36,154,030	6,782,000
Interest expense on swaps	8,176,279	23,529,259
Subordinated debt	–	1,029,595
Lease liability (Note 22)	1,412,573	1,780,891
	544,191,982	656,553,501

6. Net fees and commission income

	2021	2020
	MNT'000	MNT'000
Fees and commission income from providing financial services at a point in time:		
Commissions on operations with plastic cards	105,762,601	79,073,398
Commissions on mobile and internet services	85,574,485	60,923,839
Commissions on settlement transactions	12,425,951	11,640,616
Commissions on documentary business and guarantees	3,014,109	3,086,822
Commissions on cash operations	705,300	903,068
Commissions on transfer payments	292,944	362,537
Other	4,311,017	3,634,845
	212,086,407	159,625,125
Fees and commission expenses		
Commissions on operations with plastic cards	11,522,425	8,530,434
Commissions on settlement transactions	4,162,119	3,093,008
Commissions on foreign exchange operations	704,728	684,068
Commissions on risk participation	1,088,252	–
	17,477,524	12,307,510
Net fees and commission income	194,608,883	147,317,615

7. Net losses from financial derivatives

	2021	2020
	MNT'000	MNT'000
Net realised loss on hedging	(230,192)	(2,495,692)
Amortisation of forward points on long term swaps (Note 28)	–	(352,473)
Ineffectiveness of hedging (Note 15)	929,888	71,594
Fair value change of swaps	(902,073)	(1,448,307)
	(202,377)	(4,224,878)

8. Other operating expense/income

	2021	2020
	MNT'000	MNT'000
Fair value changes of financial investments at FVPL (Note 32)	(2,327,236)	–
Modification loss, net (Note 30.1)	(5,576,148)	(6,070,711)
Others	1,287,190	2,216,173
	(6,616,194)	(3,854,538)

9. Allowance for impairment losses

The table below shows the ECL charges/(reversals) on financial assets and liabilities for the year recorded in profit or loss:

	2021	2020
	MNT'000	MNT'000
<i>Net charge/(reversal) for credit losses:</i>		
Cash and cash equivalents (Note 13)	113,958	(201,921)
Mandatory reserves with BoM (Note 13)	607,059	2,190,959
Due from banks (Note 14)	(1,921,474)	375,445
Loans and advances to customers (Note 16)	64,813,558	52,869,801
Debt instrument measured at amortised cost (Note 17)	3,675,255	4,626,792
Debt instrument measured at FVOCI (Note 17)	227,861	(731,665)
Foreclosed properties (Note 19)	5,985	260,360
Other assets (Note 19)	19,203,282	3,716,216
Off balance commitments (Note 29)	1,093,956	2,325,583
	87,819,440	65,431,570

10. Operating expenses

	2021	2020
	MNT'000	MNT'000
Salaries, wages and bonuses	111,883,783	106,570,164
Equipment repair and maintenance expense	56,251,238	42,130,068
Depreciation of property and equipment (Note 20)	54,368,851	52,901,548
Information and telecommunication services	21,096,029	17,150,315
Deposit insurance fee	20,428,529	14,327,245
Amortisation of intangible assets (Note 21)	17,703,043	10,897,441
Contribution to social and health fund	12,513,796	5,873,668
Premises repair and maintenance expense	11,759,264	10,084,363
Depreciation of right of use assets (Note 22)	7,511,435	7,171,432
Office materials and supplies	7,212,918	6,747,793
Marketing and advertisement expenses	6,865,509	7,526,592
Security services	6,486,840	5,973,203
Professional services	4,131,625	2,627,042
Net loss on revaluation of premises (Note 20, 32)	—	2,582,396
Taxes other than income tax	2,553,539	1,973,590
Transportation	2,198,026	2,010,292
Insurance	1,506,295	1,189,697
Training expenses	1,491,360	1,172,377
Research expenses	1,305,777	947,445
Events	1,216,125	858,173
Rent	1,160,857	1,685,112
Business trip expenses	621,257	694,121
Other	17,312,889	18,067,349
	367,578,985	321,161,426

11. Income tax**11.1 Income tax expense**

The components of income tax expense for the year ended 31 December 2021 is:

	2021 MNT'000	2020 MNT'000
Current tax:		
Current income tax	92,571,808	49,446,977
Deferred tax:		
Relating to temporary differences and tax losses (Note 11.2)	2,458,192	473,023
Tax expense for the year	95,030,000	49,920,000

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% for the first MNT 6 billion (2020: 6 billion) of taxable income and 25% on the excess of taxable income over MNT 6 billion (2020: 6 billion). Interest income on government bonds is not subject to income tax. Impairment losses for non-performing loans and advances are deductible for income tax purposes.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank for the year ended 31 December 2021 is as follows:

	2021 MNT'000	2020 MNT'000
Profit before taxation	386,559,083	211,139,282
Tax at statutory rate of 25% (2020: 25%)	96,639,771	52,784,820
Effect of expenses not deductible for income tax purpose	11,351,046	7,718,223
Effect of non-taxable income	(536,217)	(263,181)
Effect of income subject to lower tax rate	(803,323)	(975,173)
Effect of tax exempted income	(11,621,277)	(9,344,689)
Tax expense for the year	95,030,000	49,920,000

The effective income tax rate for 2021 is 24.6% (2020: 23.6%).

11. Income tax (cont'd)**11.2 Deferred tax**

	2021 MNT'000	2020 MNT'000
Deferred tax asset/(liabilities)		
At 1 January	(7,467,039)	(5,760,791)
Recognised in statement of other comprehensive income (Note 28)	5,345,638	(1,233,225)
Recognised in profit or loss (Note 11.1)	(2,458,192)	(473,023)
At 31 December	(4,579,593)	(7,467,039)

	2021 MNT'000	2020 MNT'000
Deferred tax asset/(liabilities)		
Debt and equity instruments measured at FVOCI	(1,854,754)	(4,380,003)
Revaluation of financial derivatives	1,169,340	(1,758,608)
PPE depreciation	(3,894,179)	(1,328,428)
At 31 December	(4,579,593)	(7,467,039)

	Debt and equity instruments measured at fair value through OCI MNT'000	Revaluation of financial derivatives MNT'000	Depreciation of property and equipment MNT'000	Total MNT'000
As of 31 December 2020 and 1 January 2021	(4,380,003)	(1,758,608)	(1,328,428)	(7,467,039)
Recognised in statement of other comprehensive income (Note 28)	2,525,248	2,820,390	–	5,345,638
Recognised in profit or loss	–	107,559	(2,565,751)	(2,458,192)
As at 31 December 2021	(1,854,755)	1,169,341	(3,894,179)	(4,579,593)

	Debt and equity instruments measured at fair value through OCI MNT'000	Revaluation of financial derivatives MNT'000	Depreciation of property and equipment MNT'000	Total MNT'000
As of 31 December 2019 and 1 January 2020	(5,588,469)	(172,322)	–	(5,760,791)
Recognised in statement of other comprehensive income (Note 28)	1,208,466	(2,441,691)	–	(1,233,225)
Recognised in profit or loss	–	855,405	(1,328,428)	(473,023)
As at 31 December 2020	(4,380,003)	(1,758,608)	(1,328,428)	(7,467,039)

Temporary differences on depreciation of property and equipment was recognised during the years ended 31 December 2020 and 31 December 2021 as a result of a change in the tax base effective from 1 January 2020.

11.3 Income tax liabilities

	2021 MNT'000	2020 MNT'000
Income tax liability as at 1 January	6,155,494	9,998,555
Income tax expense for the period	92,571,808	49,446,977
Tax paid	(96,559,450)	(53,290,038)
Income tax liability as at 31 December	2,167,852	6,155,494

12. Earnings per share

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year, excluding treasury shares and adjusted retrospectively by the share split of 30-for-1 during the year (Note 28).

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings per share are calculated as follows:

	2021 MNT'000	2020 MNT'000
Profit attributable to ordinary equity holders - basic and diluted	291,529,083	161,219,282
	2021	2020
Adjusted weighted average number of ordinary shares for EPS	172,097,820	185,227,124
Earnings per share	2021 MNT'000	2020 MNT'000
Equity holders of the Bank for the period:		
Basic earnings per share	1.69	0.87
Diluted earnings per share	1.69	0.87

13. Cash and cash equivalent

	2021 MNT'000	2020 MNT'000
Cash on hand	186,773,015	266,128,773
Current account with BoM	596,212,932	658,893,944
BoM treasury bills	3,341,595,707	3,325,415,669
Due from banks - less than three months	373,762,780	575,280,699
Reverse securities sale and repurchase agreements with other banks with original maturities of less than 3 months	29,989,321	3,495,780
Gross carrying cash and cash equivalents other than mandatory reserves	4,528,333,755	4,829,214,865
Less: Allowance for impairment losses on cash and cash equivalents other than mandatory reserves	(1,353,776)	(1,239,818)
Net cash and cash equivalents other than mandatory reserves	4,526,979,979	4,827,975,047
Mandatory reserves with BoM	818,615,281	752,262,088
Less: Allowance for impairment losses on mandatory reserves with BoM	(9,533,549)	(8,926,490)
Net mandatory reserves	809,081,732	743,335,598

The mandatory reserve held with BoM are determined at not less than 6.0% (local currency) and 18.0% (foreign currency) of customer deposits based on average balance of two (2) weeks. As at 31 December 2021, the average reserves required by BoM for that period of 2 weeks were MNT 504,784,204 thousand (2020: MNT 413,193,021 thousand) for local currency and MNT 313,831,077 thousand (2020: MNT 339,069,067 thousand) maintained on current accounts with BoM.

13. Cash and cash equivalent (cont'd)**Impairment allowance for cash and cash equivalent excluding cash on hand**

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 30:

	2021	2020
	Stage 1	Stage 1
Internal rating grade	MNT'000	MNT'000
AA- to AA+ rating	170,679,342	64,917,125
A- to A+ rated	129,529,937	228,796,132
BBB- to BBB+ rated	14,382,923	25,207,443
BB- to BB+ rated	4,922,878	5,310,762
B- to B+ rated	4,003,152,713	4,229,864,403
C to CCC+ rated	—	—
Not rated	18,892,947	8,990,227
	4,341,560,740	4,563,086,092

An analysis of changes in the gross carrying amount and the corresponding ECL allowance as at 31 December 2021 and 31 December 2020 were, as follows:

	2021	2020
	Stage 1	Stage 1
	MNT'000	MNT'000
Gross carrying amount as at 1 January	4,563,086,092	3,158,219,789
New assets originated or purchased	182,678,265,150	128,119,201,245
Repaid amounts	(182,894,625,062)	(126,774,055,690)
Foreign exchange adjustments	(5,165,440)	59,720,748
At 31 December	4,341,560,740	4,563,086,092
ECL allowance as at 1 January	1,239,818	1,441,739
New assets originated or purchased	18,227,796	9,195,703
Changes to input used for ECL calculation	(1,027,835)	(1,375,562)
Assets derecognised or repaid (excluding write-offs)	(17,086,003)	(8,022,062)
Net charge/(reversal) for the year (Note 9)	113,958	(201,921)
At 31 December	1,353,776	1,239,818

Impairment allowance for mandatory reserves with BoM

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 30:

	2021	2020
	Stage 1	Stage 1
Internal rating grade	MNT'000	MNT'000
AA- to AA+ rating	—	—
A- to A+ rated	—	—
BBB- to BBB+ rated	—	—
BB- to BB+ rated	—	—
B- to B+ rated	818,615,281	752,262,088
C to CCC+ rated	—	—
Not rated	—	—
	818,615,281	752,262,088

13. Cash and cash equivalent (cont'd)**Impairment allowance for mandatory reserves with BoM (cont'd)**

An analysis of changes in the gross carrying amount and the corresponding ECL allowance as at 31 December 2021 and 31 December 2020 is, as follows:

	2021 Stage 1 MNT'000	2020 Stage 1 MNT'000
Gross carrying amount as at 1 January	752,262,088	756,716,276
Net movement during the year	66,353,193	(4,454,188)
At 31 December	818,615,281	752,262,088
ECL allowance as at 1 January	8,926,490	6,735,531
Net charge for the year (Note 9)	607,059	2,190,959
At 31 December	9,533,549	8,926,490

14. Due from banks

	2021 MNT'000	2020 MNT'000
Placement with local banks and financial institutions	—	87,322,195
Gross carrying amount	—	87,322,195
Less: Allowance for impairment losses	—	(1,921,474)
Net carrying amount	—	85,400,721

Due from banks represent local and foreign currency current accounts and deposits maintained with foreign and local financial institutions. All placements held as of 31 December 2020 were denominated in MNT with original maturity from 730 to 734 days and with an annual interest rate of 10.80%. During the fourth quarter of 2021, outstanding balances were fully settled.

Impairment allowance for due from banks

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 30:

	2021 Stage 1 MNT'000	2020 Stage 1 MNT'000
Internal rating grade		
AA- to AA+ rated	—	—
A- to A+ rated	—	—
BBB- to BBB+ rated	—	—
B- to B+ rated	—	87,322,195
C to CCC+rated	—	—
Not rated	—	—
	—	87,322,195

14. Due from banks (cont'd)**Impairment allowance for due from banks (cont'd)**

An analysis of changes in the gross carrying amount and the corresponding ECL allowance as at 31 December 2021 is, as follows:

	2021	2020
	Stage 1	Stage 1
	MNT'000	MNT'000
Gross carrying amount as at 1 January	87,322,195	121,001,285
New assets originated or purchased	59,168,143	123,646,242
Repaid amounts	(146,499,197)	(158,923,088)
Foreign exchange adjustments	8,859	1,597,756
At 31 December	—	87,322,195
ECL allowance as at 1 January	1,921,474	1,546,029
New assets originated or purchased	263,195	2,874,524
Assets derecognised or repaid (excluding write-offs)	(2,184,669)	(2,499,079)
Net charge/(reversal) for the year (Note 9)	(1,921,474)	375,445
At 31 December	—	1,921,474

15. Derivative financial instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	Notional amount		Fair value of assets	Fair value of liabilities
	USD receivable	MNT payable	MNT'000	MNT'000
Swaps	MNT'000	MNT'000		
31 December 2021	572,889,153	544,844,995	27,086,528	319,756
31 December 2020	740,506,218	669,070,970	82,094,281	206,964

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. The Bank's risk management strategy and how it is applied to manage its risks is disclosed in Note 30. The effects of respective hedge accounting on financial position and performance disclosed in Note 7 and Note 28, and below.

The swap agreements are designated as hedging instruments and are designed to hedge the risk of variability of cash flows denominated in USD from the long-term borrowings received from foreign banks and financial institutions.

At 31 December 2021, the Bank had cross-currency swap agreements whereby at the initiation, the Bank pays USD funds and receives MNT funds at the spot rate. During the term of the swap, the Bank receives interest in USD at LIBOR plus certain margin and pays interest in MNT at the policy rate, repo rate or 28 week BoM bill rate determined by BoM. At the end of the term, for deliverable type of cross currency swaps the Bank exchanges the notional amount swapped at the initiation, whereas for non-deliverable type of cross currency swaps the Bank shall pay or receive the difference incurred by the exchange rates at the end of the term.

The USD denominated long-term borrowings received from foreign banks and financial institutions designated as hedged item being eligible for hedge accounting have a notional amount of USD 168,365 thousand as of 31 December 2021 with annual floating interest rates ranging from 6m Libor plus margin of 3% to 5.5% or fixed annual interest rates ranging from 3.5% to 5%.

15. Derivative financial instruments (cont'd)**Cash flow hedges**

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

Long term USD borrowed funds	Change in fair value of hedged item in the year used for ineffectiveness measurement (Note 28) MNT'000	Cash flow hedge reserve - continuing hedges (Note 28) MNT'000	Line item in the statement of financial position
31 December 2021	(11,233,271)	(1,670,161)	Borrowed funds
31 December 2020	34,306,277	6,791,008	Borrowed funds

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

					Change in fair value of hedged instrument in the year used for ineffectiveness measurement		
	Notional amount of USD receivable MNT'000	Notional amount of MNT payable MNT'000	Fair value of assets MNT'000	In total MNT'000	Effective portion recognised in OCI (Note 28) MNT'000	Hedge ineffectiveness recognised in the profit or loss in Net losses from financial derivatives (Note 7) MNT'000	Reclassified into profit or loss as net revaluation (Note 28) MNT'000
Swaps							
31 December 2021	479,638,890	454,605,456	23,736,440	(10,303,383)	(11,233,271)	929,888	121,608
31 December 2020	547,852,225	492,699,990	64,206,913	34,377,871	34,306,277	71,594	(28,822,344)

The following table shows the maturity and rate profiles of the Bank's hedging instruments used in its cash flow hedges. As the Bank applies one-to-one hedging ratios, the below table effectively shows the outcome of the cash flows hedges:

31 December 2021	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
Notional amount of receivables	48,836,571	46,801,714	101,763,206	282,237,399	479,638,890
Notional amount of payables	45,150,343	41,172,943	93,387,816	274,894,354	454,605,456
Average forward rates (MNT/USD)	2,633.77	2,506.18	2,614.34	2,774.68	
31 December 2020					
Notional amount of receivables	67,845,474	26,459,733	171,649,064	281,897,954	547,852,225
Notional amount of payables	61,742,475	22,893,441	151,301,827	256,762,247	492,699,990
Average forward rates (MNT/USD)	2,593.18	2,465.45	2,511.73	2,595.43	

16. Loans and advances to customers

	2021 MNT'000	2020 MNT'000
Business loans*	3,703,581,060	2,725,300,893
Consumer loans	2,159,795,450	1,991,682,298
Agricultural loans	593,944,132	413,440,236
	6,457,320,642	5,130,423,427
Allowance for impairment losses	(428,337,712)	(364,539,866)
Net loans and advances to customers at amortised cost	6,028,982,930	4,765,883,561
Loans and advances to customers at fair value through profit or loss	560,315,869	159,599,674
Total loans and advances to customers	6,589,298,799	4,925,483,235

*On 20 February 2021, the Government of Mongolia has approved a MNT 10 trillion "Economic recovery plan and citizen's health protection program". The program consisted of 5 components supporting SMEs, housing, strategically important projects, agricultural productions and access to education, expected to continue until 2023. Out of these 5 sub-programs, the sub-program in supporting SMEs began in March 2021 and the sub-program in supporting agricultural productions began in May 2021.

16. Loans and advances to customers (cont'd)**Impairment allowance for loans and advances to customers**

The tables below show the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 30.

	Business MNT'000	Consumer MNT'000	Agricultural MNT'000	Total MNT'000
At 31 December 2021				
Gross carrying amount as at 1 January 2021	2,725,300,893	1,991,682,298	413,440,236	5,130,423,427
New assets originated or purchased	4,437,708,567	2,874,200,181	634,333,267	7,946,242,015
Assets derecognised or repaid	(3,459,301,202)	(2,705,207,572)	(453,823,860)	(6,618,332,634)
Amounts written-off	(127,198)	(879,457)	(5,511)	(1,012,166)
At 31 December 2021	3,703,581,060	2,159,795,450	593,944,132	6,457,320,642
ECL allowance as at 1 January 2021	274,834,551	87,848,390	1,856,925	364,539,866
New assets originated or purchased	198,021,323	23,990,958	3,079,377	225,091,658
Assets derecognised or repaid	(169,012,605)	(32,928,577)	(1,879,755)	(203,820,937)
Impact on ECL of transfer	23,085,082	20,077,020	380,735	43,542,837
Net charge for the year (Note 9)	52,093,800	11,139,401	1,580,357	64,813,558
Amounts written-off	(127,198)	(879,457)	(5,511)	(1,012,166)
Foreign exchange adjustments	(3,458)	(88)	–	(3,546)
At 31 December 2021	326,797,695	98,108,246	3,431,771	428,337,712
At 31 December 2020				
Gross carrying amount as at 1 January 2020	1,839,333,598	2,640,415,864	341,687,535	4,821,436,997
New assets originated or purchased	4,206,481,923	2,321,985,203	453,955,054	6,982,422,180
Assets derecognised or repaid	(3,320,169,564)	(2,970,465,030)	(382,200,042)	(6,672,834,636)
Amounts written-off	(345,064)	(253,739)	(2,311)	(601,114)
At 31 December 2020	2,725,300,893	1,991,682,298	413,440,236	5,130,423,427
ECL allowance as at 1 January 2020	218,884,201	91,966,596	675,586	311,526,383
New assets originated or purchased	126,628,383	18,991,542	2,215,255	147,835,180
Assets derecognised or repaid	(119,882,198)	(41,755,855)	(1,501,559)	(163,139,612)
Impact on ECL of transfer	43,813,373	22,302,540	(132,783)	65,983,130
Changes to models/assumptions	4,995,282	(3,406,916)	602,737	2,191,103
Net charge for the year (Note 9)	55,554,840	(3,868,689)	1,183,650	52,869,801
Amounts written-off	(345,064)	(253,739)	(2,311)	(601,114)
Foreign exchange adjustments	740,574	4,222	–	744,796
At 31 December 2020	274,834,551	87,848,390	1,856,925	364,539,866

The tables also include an analysis of changes in the gross carrying amount and the corresponding ECL allowances including the credit quality of the financial assets under IFRS 9, as follows:

16. Loans and advances to customers (cont'd)**Impairment allowance for loans and advances to customers (cont'd)****Business loans**

	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Gross carrying amount as at 1 January 2021	1,627,651,484	868,544,885	229,104,524	2,725,300,893
New assets originated or purchased	4,437,708,567	–	–	4,437,708,567
Assets derecognised or repaid	(2,720,006,398)	(677,275,032)	(62,019,772)	(3,459,301,202)
Transfer to/(from) Stage 1	5,407,227	(3,540,261)	(1,866,966)	–
Transfer to/(from) Stage 2	(499,677,979)	499,817,759	(139,780)	–
Transfer to/(from) Stage 3	(18,298,035)	(61,801,999)	80,100,034	–
Amounts written-off	–	–	(127,198)	(127,198)
At 31 December 2021	2,832,784,866	625,745,352	245,050,842	3,703,581,060
ECL allowance as at 1 January 2021	59,905,987	50,831,454	164,097,110	274,834,551
New assets originated or purchased	198,021,323	–	–	198,021,323
Assets derecognised or repaid	(84,021,387)	(50,848,066)	(34,143,152)	(169,012,605)
Transfer to/(from) Stage 1	1,001,911	(205,116)	(796,795)	–
Transfer to/(from) Stage 2	(58,574,663)	58,646,369	(71,706)	–
Transfer to/(from) Stage 3	(19,004,773)	(18,934,435)	37,939,208	–
Impact on ECL of transfer	(891,134)	11,397,120	12,579,096	23,085,082
Amounts written-off	–	–	(127,198)	(127,198)
Foreign exchange adjustments	23,197	(281)	(26,374)	(3,458)
At 31 December 2021	96,460,461	50,887,045	179,450,189	326,797,695

Credit quality of gross carrying amounts as at 31 December 2021

	2021			
	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Internal rating grade				
Performing	2,832,784,866	462,404,234	8,478,056*	3,303,667,156
Special mention	–	163,341,118	–	163,341,118
Substandard	–	–	26,505,359	26,505,359
Doubtful	–	–	17,907,627	17,907,627
Loss	–	–	192,159,800	192,159,800
Total	2,832,784,866	625,745,352	245,050,842	3,703,581,060

*Mainly represents refinanced non-performing loans under the Government's repurchase agreement financing program (Note 24) during the year.

	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Gross carrying amount as at 1 January 2020	1,584,586,014	52,741,205	202,006,379	1,839,333,598
New assets originated or purchased	4,206,481,923	–	–	4,206,481,923
Assets derecognised or repaid	(3,169,023,302)	(114,337,614)	(36,808,648)	(3,320,169,564)
Transfer to/(from) Stage 1	5,794,157	(5,695,294)	(98,863)	–
Transfer to/(from) Stage 2	(976,382,866)	976,425,326	(42,460)	–
Transfer to/(from) Stage 3	(23,804,442)	(40,588,738)	64,393,180	–
Amounts written-off	–	–	(345,064)	(345,064)
At 31 December 2020	1,627,651,484	868,544,885	229,104,524	2,725,300,893

16. Loans and advances to customers (cont'd.)**Impairment allowance for loans and advances to customers (cont'd)****Business loans (cont'd)**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
ECL allowance as at 1 January 2020	63,267,040	7,437,244	148,179,917	218,884,201
New assets originated or purchased	126,628,383	–	–	126,628,383
Assets derecognised or repaid	(83,916,471)	(18,514,512)	(17,451,215)	(119,882,198)
Transfer to/(from) Stage 1	448,833	(408,256)	(40,577)	–
Transfer to/(from) Stage 2	(32,326,214)	32,347,845	(21,631)	–
Transfer to/(from) Stage 3	(14,721,734)	(13,870,179)	28,591,913	–
Impact on ECL of transfer	(2,602,050)	43,121,099	3,294,324	43,813,373
Changes to models/assumptions	2,481,971	717,845	1,795,466	4,995,282
Amounts written-off	–	–	(345,064)	(345,064)
Foreign exchange adjustments	646,229	368	93,977	740,574
At 31 December 2020	59,905,987	50,831,454	164,097,110	274,834,551

Credit quality of gross carrying amounts as at 31 December 2020

	2020			
Internal rating grade	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Performing	1,627,651,484	578,503,197	–	2,206,154,681
Special mention	–	290,041,688	–	290,041,688
Substandard	–	–	16,827,038	16,827,038
Doubtful	–	–	5,533,181	5,533,181
Loss	–	–	206,744,305	206,744,305
Total	1,627,651,484	868,544,885	229,104,524	2,725,300,893

Consumer loans

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2021	1,803,296,619	61,824,821	126,560,858	1,991,682,298
New assets originated or purchased	2,874,200,181	–	–	2,874,200,181
Assets derecognised or repaid	(2,638,063,698)	(25,241,161)	(41,902,713)	(2,705,207,572)
Transfer to/(from) Stage 1	4,490,543	(3,735,597)	(754,946)	–
Transfer to/(from) Stage 2	(27,537,665)	27,714,037	(176,372)	–
Transfer to/(from) Stage 3	(18,413,017)	(22,506,088)	40,919,105	–
Amounts written-off	–	–	(879,457)	(879,457)
At 31 December 2021	1,997,972,963	38,056,012	123,766,475	2,159,795,450
ECL allowance as at 1 January 2021	13,467,864	2,435,643	71,944,883	87,848,390
New assets originated or purchased	23,990,958	–	–	23,990,958
Assets derecognised or repaid	(9,903,475)	(2,275,681)	(20,749,421)	(32,928,577)
Transfer to/(from) Stage 1	488,304	(66,675)	(421,629)	–
Transfer to/(from) Stage 2	(3,677,772)	3,779,566	(101,794)	–
Transfer to/(from) Stage 3	(849,671)	(7,284,115)	8,133,786	–
Impact on ECL of transfer	(441,944)	7,406,754	13,112,210	20,077,020
Amounts written-off	–	–	(879,457)	(879,457)
Foreign exchange adjustments	974	–	(1,062)	(88)
At 31 December 2021	23,075,238	3,995,492	71,037,516	98,108,246

16. Loans and advances to customers (cont'd.)**Impairment allowance for loans and advances to customers (cont'd)****Consumer loans (cont'd)****Credit quality of gross carrying amounts as at 31 December 2021**

	2021			
	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Internal rating grade				
Performing	1,997,972,963	2,571,776	–	2,000,544,739
Special mention	–	35,484,236	–	35,484,236
Substandard	–	–	25,869,567	25,869,567
Doubtful	–	–	25,010,094	25,010,094
Loss	–	–	72,886,814	72,886,814
Total	1,997,972,963	38,056,012	123,766,475	2,159,795,450

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2020	2,446,765,142	89,424,302	104,226,420	2,640,415,864
New assets originated or purchased	2,321,985,203	–	–	2,321,985,203
Assets derecognised or repaid	(2,914,522,331)	(26,003,428)	(29,939,271)	(2,970,465,030)
Transfer to/(from) Stage 1	9,003,772	(6,788,001)	(2,215,771)	–
Transfer to/(from) Stage 2	(36,529,325)	37,222,254	(692,929)	–
Transfer to/(from) Stage 3	(23,405,842)	(32,030,306)	55,436,148	–
Amounts written-off	–	–	(253,739)	(253,739)
At 31 December 2020	1,803,296,619	61,824,821	126,560,858	1,991,682,298

ECL allowance as at 1 January 2020	21,239,615	11,255,843	59,471,138	91,966,596
New assets originated or purchased	18,991,542	–	–	18,991,542
Assets derecognised or repaid	(17,142,972)	(8,209,686)	(16,403,197)	(41,755,855)
Transfer to/(from) Stage 1	1,808,674	(393,833)	(1,414,841)	–
Transfer to/(from) Stage 2	(5,268,555)	5,652,840	(384,285)	–
Transfer to/(from) Stage 3	(4,402,575)	(11,562,612)	15,965,187	–
Impact on ECL of transfer	(544,746)	6,491,006	16,356,280	22,302,540
Changes to models/assumptions	(1,213,479)	(797,939)	(1,395,498)	(3,406,916)
Amounts written-off	–	–	(253,739)	(253,739)
Foreign exchange adjustments	360	24	3,838	4,222
At 31 December 2020	13,467,864	2,435,643	71,944,883	87,848,390

Credit quality of gross carrying amounts as at 31 December 2020

	2020			
	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Internal rating grade				
Performing	1,803,296,619	3,561,423	–	1,806,858,042
Special mention	–	58,263,398	–	58,263,398
Substandard	–	–	30,362,998	30,362,998
Doubtful	–	–	25,830,069	25,830,069
Loss	–	–	70,367,791	70,367,791
Total	1,803,296,619	61,824,821	126,560,858	1,991,682,298

Agricultural loans

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2021	386,635,750	24,571,952	2,232,534	413,440,236
New assets originated or purchased	634,333,267	–	–	634,333,267
Assets derecognised or repaid	(431,614,461)	(20,180,949)	(2,028,450)	(453,823,860)
Transfer to/(from) Stage 1	69,137	(68,119)	(1,018)	–
Transfer to/(from) Stage 2	(7,006,514)	7,006,514	–	–
Transfer to/(from) Stage 3	(463,363)	(663,262)	1,126,625	–
Amounts written-off	–	–	(5,511)	(5,511)
At 31 December 2021	581,953,816	10,666,136	1,324,180	593,944,132

16. Loans and advances to customers (cont'd.)**Impairment allowance for loans and advances to customers (cont'd)****Agricultural loans (cont'd)**

	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
ECL allowance as at 1 January 2021	693,276	80,572	1,083,077	1,856,925
New assets originated or purchased	3,079,377	–	–	3,079,377
Assets derecognised or repaid	(810,688)	(109,241)	(959,826)	(1,879,755)
Transfer to/(from) Stage 1	541	(265)	(276)	–
Transfer to/(from) Stage 2	(454,959)	454,959	–	–
Transfer to/(from) Stage 3	(970)	(178,132)	179,102	–
Impact on ECL of transfer	(329)	198,315	182,749	380,735
Amounts written-off	–	–	(5,511)	(5,511)
At 31 December 2021	2,506,248	446,208	479,315	3,431,771

Credit quality of gross carrying amounts as at 31 December 2021

	2021			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Performing	581,953,816	9,127,733	–	591,081,549
Special mention	–	1,538,403	–	1,538,403
Substandard	–	–	589,715	589,715
Doubtful	–	–	262,843	262,843
Loss	–	–	471,622	471,622
Total	581,953,816	10,666,136	1,324,180	593,944,132

	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Gross carrying amount as at 1 January 2020	339,988,949	797,024	901,562	341,687,535
New assets originated or purchased	453,955,054	–	–	453,955,054
Assets derecognised or repaid	(359,260,707)	(22,104,286)	(835,049)	(382,200,042)
Transfer to/(from) Stage 1	177,095	(177,095)	–	–
Transfer to/(from) Stage 2	(47,743,669)	47,747,192	(3,523)	–
Transfer to/(from) Stage 3	(480,972)	(1,690,883)	2,171,855	–
Amounts written-off	–	–	(2,311)	(2,311)
At 31 December 2020	386,635,750	24,571,952	2,232,534	413,440,236

	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
ECL allowance as at 1 January 2020	357,753	57,620	260,213	675,586
New assets originated or purchased	2,215,255	–	–	2,215,255
Assets derecognised or repaid	(571,265)	(566,817)	(363,477)	(1,501,559)
Transfer to/(from) Stage 1	269	(269)	–	–
Transfer to/(from) Stage 2	(1,024,127)	1,025,090	(963)	–
Transfer to/(from) Stage 3	(284,769)	(977,821)	1,262,590	–
Impact on ECL of transfer	(476,251)	505,085	(161,617)	(132,783)
Changes to models/assumptions	476,411	37,684	88,642	602,737
Amounts written-off	–	–	(2,311)	(2,311)
At 31 December 2020	693,276	80,572	1,083,077	1,856,925

Credit quality of gross carrying amounts as at 31 December 2020

	2020			
	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Performing	386,635,750	22,860,164	–	409,495,914
Special mention	–	1,711,788	–	1,711,788
Substandard	–	–	1,311,144	1,311,144
Doubtful	–	–	147,100	147,100
Loss	–	–	774,290	774,290
Total	386,635,750	24,571,952	2,232,534	413,440,236

16. Loans and advances to customers (cont'd.)**Impairment allowance for loans and advances to customers (cont'd)**

Analysis by credit quality and maximum exposure of loans and advances to customers at gross as at 31 December 2021 and 31 December 2020 are provided below:

	Business MNT'000	Consumer MNT'000	Agricultural MNT'000	Total MNT'000
At 31 December 2021				
Performing	3,303,667,156	2,000,544,739	591,081,549	5,895,293,444
Special mention	163,341,118	35,484,236	1,538,403	200,363,757
Substandard	26,505,359	25,869,567	589,715	52,964,641
Doubtful	17,907,627	25,010,094	262,843	43,180,564
Loss	192,159,800	72,886,814	471,622	265,518,236
Total	3,703,581,060	2,159,795,450	593,944,132	6,457,320,642
	Business MNT'000	Consumer MNT'000	Agricultural MNT'000	Total MNT'000
At 31 December 2020				
Performing	2,206,154,681	1,806,858,042	409,495,914	4,422,508,637
Special mention	290,041,688	58,263,398	1,711,788	350,016,874
Substandard	16,827,038	30,362,998	1,311,144	48,501,180
Doubtful	5,533,181	25,830,069	147,100	31,510,350
Loss	206,744,305	70,367,791	774,290	277,886,386
Total	2,725,300,893	1,991,682,298	413,440,236	5,130,423,427
	Business MNT'000	Consumer MNT'000	Agricultural MNT'000	Total MNT'000
Post-model adjustment				
At 31 December 2021				
Modelled ECL	285,155,339	84,402,449	1,790,116	371,347,904
Post-model adjustment	41,642,356	13,705,797	1,641,655	56,989,808
Total ECL	326,797,695	98,108,246	3,431,771	428,337,712

Due to the number of actions and programs including payment holiday which introduced by Government of Mongolia and BoM in light of COVID-19 pandemic related lockdowns, probability of default and loss given default rates have improved. The Bank has excluded such improvements from the loss rates by adding a matching post-model adjustment of MNT 56.9 billion to increase the allowance for impairment losses. The Bank developed with assumption that overall economy and quality of loan portfolios would not have such improvements until the end of government reliefs under COVID-19 pandemic.

The fair value of the collateral that the Bank holds amounts to MNT 23,474 billion (2020: MNT 17,226 billion). These values are estimated by management based on the latest available information. For a more detailed description, see 'Collateral and other credit enhancement' under Note 30.

Transferred financial assets that are derecognised in their entirety

During the year (on 3 February, 2 November and 27 December 2021) the Bank sold 100% of its rights of the cash flows arising on portfolios of fixed rate mortgage loans to wholly owned special purpose companies of MIK Holding JSC ("MIK") in exchange for Residential Mortgage Backed Securities ("RMBS"). The Bank derecognised the loan portfolios and recognised the Senior RMBS and Junior RMBS received as financial assets. The Bank derecognised loan portfolios amounting to MNT 73,968 million (2020: MNT 66,670 million) and recognised Senior and Junior RMBS as financial assets amounting to MNT 66,571 million and MNT 7,397 million respectively (2020: MNT 60,003 million and MNT 6,667 million respectively). During the year ended 31 December 2021, Senior RMBS amounting to MNT 39,224 million were transferred to BoM to settle its loans due to BoM (2020: MNT 48,036 million).

On 23 November 2021, the Bank entered into portfolio sales agreement with XacBank under its strategic plan of reducing its excessive loan portfolio of car leasing which had carrying amount of MNT 48,894 million and classified as performing as of the agreement date. The Bank received payment and transferred the rights of the loans or fully derecognized within November 2021.

Loans and advances to customers at FVPL

The Bank holds mortgage portfolio of loans and advances to customers to be sold to MIK which amounting to MNT 285,250 million. In addition, the Bank disbursed SME loans and advances from its financing received under repurchase agreement as part of government program (Note 24) during the year and its outstanding balance as of 31 December 2021 was amounting to MNT 275,066 million. These loans and advances were classified as they did not meet SPPI test of the amortised cost classification.

17. Financial investments

	2021 MNT'000	2020 MNT'000
Debt instruments measured at FVOCI:		
Unquoted bonds at fair value	–	42,117,133
Quoted bonds at fair value	206,007,659	158,916,354
	206,007,659	201,033,487
Equity instruments measured at FVOCI		
Quoted equities at fair value	3,157,209	3,148,784
Debt instruments at amortised cost		
Unquoted government treasury bills	–	140,628,080
Unquoted government bonds	16,185,153	16,159,566
Quoted government bonds at amortised cost	536,903,645	372,414,751
	553,088,798	529,202,397
Financial assets at fair value through profit or loss:		
Senior RMBS at fair value	36,536,559	8,290,518
Junior RMBS	113,368,465	102,422,285
Unquoted investment	–	2,327,261
	149,905,024	113,040,064

Quoted bonds at fair value and amortised costs represent government bonds listed on international market.

Quoted equities at fair value represent equity investment in MIK Holding JSC (“MIK”), listed on the Mongolia Stock Exchange.

Unquoted government treasury bills and bonds at amortised cost are interest-bearing long-term securities issued by the Government and BoM.

Senior RMBSs are interest bearing long-term securities issued by MIK and are required to be sold to BoM and Ministry of Finance of Mongolia as repayment for the mortgage funding which was issued to commercial banks for financing subsidised mortgage loans.

Junior RMBS are interest-bearing long-term securities issued by MIK which per the Securities Law of Mongolia, are required to be held by commercial banks for at least 3 years.

Unquoted investments represent investment made in unquoted companies. Investment does not meet the equity instrument definition. Additionally, as the cash flow amount from this investment is not fixed and principal and interest is distributed based on performance, the contractual cash flow does not consist solely of principal and interest. As a result, it fails to pass the Solely Payment of Principal and Interest test and was classified into FVPL.

Impairment losses on financial investments subject to impairment assessment

	Debt instruments measured at FVOCI MNT'000	Debt instruments at amortised cost MNT'000
Gross carrying amount		
At 1 January 2021	204,295,155	534,885,253
Purchase/Addition	156,535,570	329,784,384
Interest Receivable	12,198,719	43,000,246
Net movement of unamortised discount	13,472,185	14,470,192
Matured/repaid financial investments	(157,535,191)	(316,125,718)
Repayment of interest receivables	(10,790,982)	(41,831,260)
Foreign exchange difference	1,431,151	(1,736,188)
Increase/(decrease) in fair value	(10,109,419)	–
At 31 December 2021	209,497,188	562,446,909

17. Financial investments (cont'd)

Impairment losses on financial investments subject to impairment assessment (cont'd)

	Debt instruments measured at FVOCI MNT'000	Debt instruments at amortised cost MNT'000
ECL allowance		
At 1 January 2021	3,261,668	5,682,856
Purchase of new investments	2,778,302	4,919,320
Changes to input used for ECL calculation	(1,084,001)	(383,384)
Recoveries/matured/repaid	(1,466,440)	(860,681)
Net charge/(reversals) for the year (Note 9)	227,861	3,675,255
At 31 December 2021	3,489,529	9,358,111
Net financial investments	206,007,659	553,088,798
	Debt instruments measured at FVOCI MNT'000	Debt instruments at amortised cost MNT'000
Gross carrying amount		
At 1 January 2020	291,218,800	349,968,883
Purchase/Addition	594,282,000	553,364,959
Interest Receivable	16,531,362	32,320,745
Net movement of unamortised discount	(12,281,610)	4,879,490
Matured/repaid financial investments	(673,030,072)	(399,286,356)
Repayment of interest receivables	(18,249,634)	(28,219,615)
Foreign exchange difference	10,647,641	21,857,147
Increase/(decrease) in fair value	(4,823,332)	—
At 31 December 2020	204,295,155	534,885,253
ECL allowance		
At 1 January 2020	3,993,333	1,056,064
Purchase of new investments	13,773,173	6,472,995
Changes to input used for ECL calculation	(123,569)	(1,359,906)
Recoveries/matured/repaid	(14,381,269)	(486,297)
Net charge/(reversals) for the year (Note 9)	(731,665)	4,626,792
At 31 December 2020	3,261,668	5,682,856
Net financial investments	201,033,487	529,202,397

Debt instruments measured at FVOCI

The table below shows the fair value of the Bank's debt instruments measured at FVOCI and measured at amortised cost by credit risk, based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 30.

	2021 Stage 1 MNT'000	2020 Stage 1 MNT'000
Internal rating grade		
AA- to AA+ rated	—	—
A- to A+ rated	—	—
BBB- to BBB+ rated	—	—
B- to B+ rated	209,497,188	204,295,155
C to CCC+rated	—	—
Not rated	—	—
Total	209,497,188	204,295,155

17. Financial investments (cont'd)**Impairment losses on financial investments subject to impairment assessment (cont'd)****Debt instruments measured at amortised cost**

	2021	2020
	Stage 1	Stage 1
Internal rating grade	MNT'000	MNT'000
AA- to AA+ rated	—	—
A- to A+ rated	—	—
BBB- to BBB+ rated	—	—
B- to B+ rated	562,446,909	534,885,253
C to CCC+rated	—	—
Not rated	—	—
Total	562,446,909	534,885,253

18. Investments in associate

	2021	2020
	MNT'000	MNT'000
Mongolian Banking Association Property Management (MBAPM)	58,250	58,250
Credit Information Bureau (CIB)	243,638	243,638
	301,888	301,888

As of 31 December 2021, the Bank's ownerships in MBAPM and CIB were 14.58% and 18.88%, respectively. (2020: 14.58% and 18.88%). The Bank exercises significant influence through their representation in the Board of Directors of these entities. During the year, no share of profits and net assets and liabilities of these associates' were accounted for by the Bank as they were deemed de minimis.

19. Other assets

	2021	2020
	MNT'000	MNT'000
Other receivables*	25,540,070	24,854,625
Less: Allowance for impairment	(23,562,969)	(4,375,636)
	1,977,101	20,478,989
Foreclosed properties	462,634	975,150
Less: Allowance for repossessed collaterals	(462,634)	(975,150)
	—	—
Consumables and other office supplies	4,449,030	4,349,466
Deferred staff loan**	40,710,489	44,599,731
Prepaid expenses	8,283,114	2,792,812
Precious metals	21,768,134	3,137,433
Others	906,962	783,654
	76,117,729	55,663,096
Total other assets	78,094,830	76,142,085

*Other receivables include counter-guarantee receivable from Industrial and Commercial Bank of China (ICBC) in relation to guarantee issued to Ministry of Road and Transport Development of Mongolia amounting to MNT 22 billion (2020: 22 billion).

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

19. Other assets (cont'd)

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

	2021 MNT'000	2020 MNT'000
Impairment allowance on other receivables		
At 1 January	4,375,636	657,753
Charge for the year	19,461,141	3,759,032
Reversal	(257,859)	(42,816)
Net charge/(reversal) for the year (Note 9)	19,203,282	3,716,216
Foreign exchange difference	(15,949)	1,667
At 31 December	23,562,969	4,375,636
Impairment allowance on foreclosed properties		
At 1 January	975,150	714,790
Charge for the year	3,152,950	509,124
Reversal	(3,146,965)	(248,764)
Net charge for the year (Note 9)	5,985	260,360
Write off	(518,501)	–
At 31 December	462,634	975,150

20. Property and equipment

	Land and buildings MNT'000	Computer hardware MNT'000	Office furniture, equipment and motor vehicles MNT'000	Construction-in- progress MNT'000	Total MNT'000
At 31 December 2021					
At cost/valuation					
At 1 January 2021	274,270,032	242,549,519	61,681,987	28,042,268	606,543,806
Additions	–	–	–	45,741,583	45,741,583
Reclassification	15,616,891	34,570,797	5,780,649	(55,968,337)	–
Disposals	(506,657)	(1,049,180)	(1,091,853)	–	(2,647,690)
Write-offs	(7,545)	(13,394,536)	(2,312,495)	(393,715)	(16,108,291)
At 31 December 2021	289,372,721	262,676,600	64,058,288	17,421,799	633,529,408
Accumulated depreciation					
At 1 January 2021	659,389	114,186,333	25,769,914	–	140,615,636
Charge for the year (Note 10)	5,530,909	42,463,109	6,374,833	–	54,368,851
Disposals	(14,764)	(1,033,534)	(916,142)	–	(1,964,440)
Write-offs	(1,929)	(13,277,081)	(1,806,721)	–	(15,085,731)
At 31 December 2021	6,173,605	142,338,827	29,421,884	–	177,934,316
Net carrying amount	283,199,116	120,337,773	34,636,404	17,421,799	455,595,092

20. Property and equipment (cont'd)

	Land and buildings MNT'000	Computer hardware MNT'000	Office furniture, equipment and motor vehicles MNT'000	Construction- in-progress MNT'000	Total MNT'000
At 31 December 2020					
At cost/valuation					
At 1 January 2020	224,083,634	230,556,478	58,967,155	14,021,545	527,628,812
Additions	–	–	–	51,719,561	51,719,561
Reclassification	11,157,585	20,770,803	5,644,078	(37,572,466)	–
Disposals	(418,918)	(2,802,570)	(1,256,544)	–	(4,478,032)
Write-offs	(65,806)	(5,975,192)	(1,672,702)	(126,372)	(7,840,072)
Revaluation	42,095,933	–	–	–	42,095,933
Loss on revaluation reclassified to profit or loss (Note 10)	(2,582,396)	–	–	–	(2,582,396)
At 31 December 2020	274,270,032	242,549,519	61,681,987	28,042,268	606,543,806
Accumulated depreciation					
At 1 January 2020	18,026,700	82,306,423	21,492,497	–	121,825,620
Charge for the year (Note 10)	5,652,226	40,654,737	6,594,585	–	52,901,548
Disposals	(289,887)	(2,791,258)	(1,038,927)	–	(4,120,072)
Reclassification	–	(14,377)	14,377	–	–
Write-offs	(33,263)	(5,969,192)	(1,292,618)	–	(7,295,073)
Reversal of accumulated depreciation	(22,696,387)	–	–	–	(22,696,387)
At 31 December 2020	659,389	114,186,333	25,769,914	–	140,615,636
Net carrying amount	273,610,643	128,363,186	35,912,073	28,042,268	465,928,170

Fair value measurement disclosures for the revalued properties are provided in Note 32.

Land and buildings are carried at fair value. Had these buildings been recognised under the cost model as at 31 December 2021, the carrying amount of land and buildings would have been MNT 210,861 million (2020: MNT 211,685 million). As at 31 December 2021, the Bank had contractual commitments to acquire property and equipment of MNT 13,019 million (2020: MNT 8,941 million).

21. Intangible assets

	Computer software MNT'000	Assets under development MNT'000	Total MNT'000
At 31 December 2021			
At cost			
At 1 January 2021	81,907,826	9,447,298	91,355,124
Additions	–	21,749,042	21,749,042
Reclassification	20,163,268	(20,163,268)	–
Write-offs	(1,090,622)	–	(1,090,622)
At 31 December 2021	100,980,472	11,033,072	112,013,544
Amortisation			
At 1 January 2021	40,636,320	–	40,636,320
Charge for the year (Note 10)	17,703,043	–	17,703,043
Write-offs	(1,090,622)	–	(1,090,622)
At 31 December 2021	57,248,741	–	57,248,741
Net carrying amount	43,731,731	11,033,072	54,764,803

21. Intangible assets (cont'd)

	Computer software MNT'000	Assets under development MNT'000	Total MNT'000
At 31 December 2020			
At cost			
At 1 January 2020	50,885,897	21,999,870	72,885,767
Additions	–	20,346,106	20,346,106
Reclassification	32,898,678	(32,898,678)	–
Write-offs	(1,876,749)	–	(1,876,749)
At 31 December 2020	81,907,826	9,447,298	91,355,124
Amortisation			
At 1 January 2020	31,614,115	–	31,614,115
Charge for the year (Note 10)	10,897,441	–	10,897,441
Write-offs	(1,875,236)	–	(1,875,236)
At 31 December 2020	40,636,320	–	40,636,320
Net carrying amount	41,271,506	9,447,298	50,718,804

22. Right of use assets and lease liability

	Right-of-use assets MNT'000	Lease liabilities MNT'000
As at 1 January 2021	7,362,765	7,960,407
Additions	10,235,323	10,235,323
Depreciation expense (Note 10)	(7,511,435)	–
Interest expense (Note 5)	–	1,412,573
Payments	–	(8,522,608)
As at 31 December 2021	10,086,653	11,085,695
As at 1 January 2020	14,068,338	14,905,332
Additions	465,859	–
Depreciation expense (Note 10)	(7,171,432)	–
Interest expense (Note 5)	–	1,780,891
Payments	–	(8,725,816)
As at 31 December 2020	7,362,765	7,960,407

22. Right of use assets and lease liability (cont'd)

The maturity analysis of lease liabilities are disclosed in Note 34.

The amounts recognised in profit or loss in relation to leases are as follows:

	2021 MNT'000	2020 MNT'000
Interest on lease liabilities	1,412,573	1,780,891
Depreciation charge of right-of-use assets	7,511,435	7,171,432
Expenses relating to short-term leases	1,127,654	1,334,736
Variable lease payments that do not depend on index or rates (Utility expense of Operating expenses)	849,510	1,107,017
	10,901,172	11,394,076

23. Due to banks

	2021 MNT'000	2020 MNT'000
Current accounts from banks and financial institutions	29,305,283	16,350,456
Time deposits from banks and financial institutions	4,687,193	5,817,063
Others	1,861,804	3,657,530
	35,854,280	25,825,049

At 31 December 2021 and 2020, due to banks included time deposit with foreign bank. At 31 December 2021, time deposit included deposit from foreign bank with interest rates 10.40% (2020: 5.00% to 6.50%) per annum and original maturity 89 days (2020: 4 to 730 days).

24. Repurchase agreement

During its normal course of business, the Bank borrows and lends securities and may also sell securities under agreements to repurchase (repos) and purchase securities under agreements to resell (reverse repos).

Securities lent and repo arrangements

The following table summarises the liability arising from the consideration received, including accrued interest within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank:

	2021 MNT'000	2020 MNT'000
Repurchase agreement	620,802,675	184,890,799

Included in the balance as at 31 December 2021 was short-term repurchase agreement which the Bank entered with BoM on 31 December 2021 with amount of MNT 248 billion and sold an equal amount of unquoted BoM bills. The agreement bears annual interest of 7% and which shall mature on 3 January 2022.

During 2021, the Bank entered in long-term repurchase agreements with BoM, whereas the Bank sold unquoted BoM bills under three separate repurchase agreements at an aggregate amount of MNT 282 billion. The agreements were conducted under government program aimed to mitigate the adverse effect of the pandemic to the economy, based on which the Bank shall disburse SME loans to eligible customers (Note 16) and shall sell these loans to wholly owned special purpose companies of Securities Financing Corporation LLC in return for Asset backed bonds starting from January 2022. The agreement bears annual interests of 6% to 6.5% which shall mature in 2023.

The below table shows the reconciliation of balances during the year:

	2021 MNT'000
As at 1 January	184,890,799
Additions	1,747,680,567
Repayment	(1,311,768,691)
As at 31 December	620,802,675

25. Due to customers

	2021	2020
	MNT'000	MNT'000
Government deposits		
– Current accounts	324,496,043	26,094,078
– Demand deposits	–	325,934,998
– Time deposits	25,792,202	140,823,122
Private sector deposits		
– Current accounts	1,499,723,875	977,238,188
– Demand deposits	2,572	84,707,662
– Time deposits	432,621,764	613,011,412
– Guarantee fund	26,756,455	24,867,051
Individual deposits		
– Current accounts	1,260,543,821	761,237,651
– Demand deposits	1,763,179,261	1,929,127,320
– Time deposits	4,878,334,734	4,487,803,363
	10,211,450,727	9,370,844,845

26. Borrowed funds

		2021	2020
		MNT'000	MNT'000
Borrowed funds from foreign financial institutions			
The Netherlands Development Finance Company (FMO) and syndication arranged by FMO	6	367,696,495	297,508,663
Sawada Holdings Co.Ltd	1	77,889,459	48,900,389
BlueOrchard		67,431,708	72,600,754
Symbiotics SA	5	67,250,935	–
Incofin	4	51,092,578	52,714,681
Promissory notes	8	50,391,651	122,377,531
ResponsAbility AG	3	42,500,122	–
European Bank for Reconstruction and Development (EBRD)		41,193,766	98,868,817
Bank im Bistum Essen EG	7	15,763,096	–
IFC and syndicated loans arranged by IFC		–	39,011,227
H.I.S U.S.A Holding, Inc		–	88,124,846
Other	2	27,671,080	27,899,094
		808,880,890	848,006,002
Borrowed funds from government organizations			
Bank of Mongolia	10	277,562,132	99,446,138
Ministry of Finance/Japan Bank for International Cooperation	11	32,814,919	33,874,134
Ministry of Finance - Asian Development Bank	12	23,647,387	32,372,360
Ministry of Food, Agriculture and Light Industry	15	15,241,098	20,253,949
Ministry of Labour and Social Welfare - Small Loan supporting the Labour market	14.ii	4,043,658	4,010,000
Ministry of Finance - other		3,994,436	4,172,552
Development Bank of Mongolia	13	1,980,213	80,985,180
Ministry of Labour and Social Welfare - Employment Support Fund	14.i	–	9,033,658
Government projects		881,456	1,149,244
Education Loan Fund under Ministry of Education, Culture, Science and Sports		426,781	629,472
Other government organizations		168,337	168,337
Other project		574,411	–
		361,334,829	286,095,024
Trade finances	9	21,701,227	39,485,397
Total borrowed funds		1,191,916,946	1,173,586,423

26. Borrowed funds (cont'd)

All borrowings are unsecured.

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

- capital related ratios (such as risk weighted capital adequacy tier 1 capital ratio);
- financial risks related ratios (such as single and aggregate foreign currency open position, liquidity ratio, and interest coverage ratio);
- credit related ratios (such as single largest borrowers to the equity ratio, related party lending ratio and aggregate large exposures ratio, non-performing loans to total loan ratio, open loan exposure ratio and write off ratio);
- other ratios (cost to income ratio, loan to deposit ratio, Min ROA, and Min ROE).

Borrowed funds from foreign financial institutions1. Sawada Holdings Co.Ltd

On 22 February 2021, the Bank entered into a Loan Agreement with Sawada Holdings and obtained USD 10 million. The purpose of the loan is to support small and medium enterprises in Mongolia. The loan has a bullet repayment schedule and shall mature on 22 February 2026.

2. Frankfurt School FS

The Bank entered into a Loan Agreement with Frankfurt School FS UK Ltd through fund manager Frankfurt School Financial Services GmbH on 3 May 2021 and received USD 4.97 million on 10 May 2021 for the purposes of making micro-credit loans to eligible business clients. The loan has a bullet repayment schedule and shall mature on 10 May 2025. In addition, EUR 4.1 million of borrowing which was obtained from Arbor FS Ltd through fund manager Frankfurt School Financial Services GmbH under loan agreement dated 1 May 2018, was fully settled on 18 May 2021.

3. Funds arranged by responsAbility Investments AG

responsAbility SICAV (Lux) and MultiConcept Fund Management S.A

The Bank entered into Loan Agreements with responsAbility SICAV (Lux) and MultiConcept Fund Management S.A. on 10 May 2021 and received a total of USD 10 million on 14 May 2021. The purpose of the loan is to support micro, small and medium enterprises in Mongolia. The loan has 1 year grace period followed by 3 scheduled repayments and shall mature on 14 May 2024.

Global Climate Partnership Fund S.A

The Bank entered into a Facility Agreement with Global Climate Partnership Fund S.A. on 11 June 2021 and received USD 5 million on 17 June 2021. The purpose of the loan is to support renewable energy and energy efficiency green loans and projects in Mongolia. The loan has a 1 year grace period followed by 3 scheduled repayments and shall mature on 17 June 2024.

4. Incofin

On 30 April 2018, the Bank obtained the financing of EUR 15 million from Incofin CVBA which was fully repaid in 2021. The Bank entered into a Loan Agreement with Incofin CVSO (a fund managed by Incofin IM) on 27 May 2021 and received USD 18 million on 2 June 2021 for the purpose of financing loans to small and micro entrepreneurs in Mongolia. The loan has a 3-year grace period followed by 3 annual repayments and shall mature on 2 June 2026.

5. Symbiotics SA

The Bank entered into a Loan Agreement with MSME Bonds SA (a fund managed by Symbiotics SA) on 30 July 2021 and received USD 23.5 million on 3 August 2021. The purpose of the loan is to support micro, small and medium enterprises in Mongolia. The loan has a bullet repayment schedule and shall mature on 15 July 2026.

6. Syndicated term loan arranged by FMO (Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V.)

On 20 September 2021, the Bank entered into a USD 120 million Syndicated Term Facility Agreement with FMO (Dutch Development Bank), Proparco (France's development finance institution), DEG (German Investment Corporation) and IIB (International Investment Bank). The syndicated facility is comprised of USD 70 million and USD 50 million facilities with five and seven-year tenors respectively. The facilities have 2 years grace period and equal amortizing repayments thereafter and shall mature on 15 September 2026 and 15 September 2028, respectively. The purpose of the loan is to finance SMEs and green loans in Mongolia, and for general corporate purposes as well. The Bank obtained the first tranche of USD 60 million on 20 October 2021.

26. Borrowed funds (cont'd)**Borrowed funds from foreign financial institutions(cont'd)**7. Bank im Bistum Essen eG (BiB)

The Bank entered into a Loan Agreement with BiB Bank on 28 October 2021 and received USD 5.5 million on 9 November 2021. The purpose of the loan is to support micro, small and medium enterprises in Mongolia. The loan has 2 years grace period and equal amortizing repayments thereafter and shall mature on 9 November 2026.

8. Promissory notes

On 25 October 2021, the Bank issued Promissory notes to Symbiotics Sicav (Lux), acting for its four sub-funds, for MNT equivalent amount of USD 2.75 million. The purpose of the funds is to support micro, small and medium enterprises in Mongolia. The loan has a bullet repayment and shall mature on 28 October 2024. In addition, the following major repayments were made:

- Total of USD 7.7 million of principal payment was repaid to the funds managed by ResponsAbility Investments AG as per loan agreements dated 11 January 2018 and 10 April 2018.
- USD 10 million of principal payment was repaid to DWS Access S.A. as per loan agreement dated 13 August 2018.
- Total of MNT 28.5 billion of principal payment has been repaid to Symbiotics Sicav (Lux) as per loan agreements dated 16 August 2018 and 28 November 2019..

9. Trade finances

During the period, repayment of MNT 97,401 million were made and additional funding of MNT 79,831 million was received. Trade finances are all denominated in foreign currencies including USD and EUR. The trade loans bear annual interest rates ranging between base rate plus margin of 0.50% to 5.96% per annum and have maturity dates of up to 7 years.

Borrowed funds from government organizations

In relation to loans obtained from government organizations, following major repayments were made and new funding was received during the period ended 31 December 2021:

10. Bank of Mongolia(i) Mortgage funding program

Under the Mortgage funding program, the Bank receives funding from BoM, which bears interest rate of 1% - 4% p.a. and the Bank then issues mortgage loans at the interest rate of 6% p.a. As of 31 December 2021, the Bank received MNT 121,206 million of 1% new mortgage funding from BoM under the Mortgage program additionally and made repayments amounting to MNT 39,224 million under the program.

(ii) Germany KfW bank's project loan for SME development

On April 2002, the Government of Mongolia and Germany KfW bank entered into Loan Agreements for Development of SMEs in manufacturing, agriculture and support of financial sector. As part of this agreement, the Bank and Bank of Mongolia signed a Loan Agreement on 16 September 2020, the Bank obtained funds totalling to MNT 3.2 billion. The loan bears annual interest rate of 5% and the outstanding balance as of 31 December 2021 was MNT 2.5 billion.

(iii) Increase employment project loan of ADB

The Government of Mongolia and ADB entered into Loan Agreements for increase employment by development of SMEs. As part of this agreement, the Bank and Bank of Mongolia signed a Loan Agreement on 16 September 2020, the Bank obtained funds totalling to MNT 430 million. The loan bears annual interest rate of 7% and the outstanding balance as of 31 December 2021 was MNT 420 million.

(iv) Fuel reserve loan

Project loan for fuel reserve is being implemented in cooperation with Bank of Mongolia and Ministry of Mining and Heavy Industry, and Master Agreement was concluded in 2021. In accordance with CRO Resolution No.05/430, new loans and refinancing loans for fuel reserve purposes will be disbursed. The Bank obtained funds totalling to MNT 95.8 billion. The loan bears annual interest rate of 6% and the outstanding balance as of 31 December 2021 was MNT 95.8 billion

11. Ministry of Finance/Japan Bank for International Cooperation

In accordance with Appendix 1 of the loan agreement entered between the Government of Mongolia and Japan International Cooperation Agency (JICA), JICA agreed to lend JPY 5 billion for purpose of financing the "Two-Step Loan Project for Small and Medium Scaled Enterprises Development and Environmental Protection". As part of this agreement, the Bank had received MNT 77,423 million and USD 3.2 million in total on 14 May 2007. For MNT loans, annual interest rate equals to previous 12 month's average demand deposit interest rate for commercial banks announced by Bank of Mongolia and for USD loans, equivalent to USD 6 month Libor rate plus margin 1%. As of 31 December 2021, the loans had outstanding balances of MNT 32,815 million (2020: MNT 33,874 million). The MNT funds shall mature in 2030.

26. Borrowed funds (cont'd)**Borrowed funds from government organizations (cont'd)****12. Ministry of Finance - Asian Development Bank***Agriculture and Rural Development Project (ADB)*

On 28 October 2015, the Government of Mongolia and ADB entered into Additional Financing Agreements no.3287 MON and 3288 MON (SF) for Agriculture and Rural Development Project. As part of this additional agreement, the Bank and MOF signed a Financing Loan Agreement on 5 May 2016 and as of reporting date, the Bank obtained funds totalling to MNT 33,836 million, which has been disbursed as loans for production of agricultural goods. The loan bears annual interest rate of 4.5% and the outstanding balance as of 31 December 2021 was MNT 22,013 million.

Credit guarantee fund of Mongolia

The Bank signed a 'Credit guarantee general agreement' with Credit Guarantee fund of Mongolia to implement a "To diversify the economy and increase employment by improving credit guarantee system" project loan of Asian development bank. Under the project loan, the Bank received MNT 2.9 billion project loan and the funding cost is 5% per annum. As of 31 December 2021, the outstanding balance was MNT 1.62 billion. The funds shall mature in June 2030.

13. Development Bank of Mongolia

During the year, the financing received under the Cashmere program and the Agriculture projects from DBM were fully matured in accordance with respective agreement dates. On 21 January 2021, the Bank newly entered into a loan agreement with DBM under the 'Wheat stockpiling project' in accordance with the framework of the resolution no.180 of the Government of Mongolia dated on 14 November 2020, which intended to support the import of wheat, prevent from food shortages, stabilize supplying and create security reserves. The funding has an annual interest rate of 9.1% and matures on 21 January 2022. The financing received under this project was MNT 11 billion and the repayment totalling to MNT 9 billion was made during the year.

14. Ministry of Labor and Social Welfare – Employment Support Fund

(i) In relation to the "Labor Support Fund" project developed by Ministry of Labor and Social Welfare in rural areas, the Bank had entered into a transfer loan agreement with the General Agency for Labor welfare services on 15 August 2018 upon which funds amounting to MNT 9 billion were received with annual interest rate of 3% and maturity on 15 February 2021. As of 31 December 2021, the loan was settled fully.

(ii) Small loan to support labour market

The Bank signed the "Agreement to disburse small SME loans under the Pilot labour market support program" with the General Authority of Labour and Social Welfare on 10 October 2019. The funding cost is 3.3% per annum. As of 31 December 2021, the outstanding is MNT 4.04 billion. The funds shall mature in October 2023.

15. Ministry of Food, Agriculture and Light Industry*Long term soft loan of SME Development Fund*

The Bank signed a "General term and cooperation agreement" with the Ministry of Food, Agriculture and Light Industry on 2 August 2019. Under the project, the Bank received MNT 21 billion project loan and the funding cost is 1.8% per annum. As of 31 December 2021, the outstanding balance is MNT 15.2 billion. The funds shall mature in April 2025.

27. Other liabilities

	2021 MNT'000	2020 MNT'000
Payables and accrued expenses	31,887,840	47,435,602
Delay on clearing settlement	19,563,551	16,826,713
Temporary card payables	33,486,434	18,317,004
Salary payables	9,066,673	8,987,589
Tax payables other than income tax	852,491	8,234,783
Allowance for off balance commitments (Note 29)	5,874,105	4,780,149
Deferred revenue	30,000	437,446
	100,761,094	105,019,286

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

Deferred revenue pertains to the interest income received upfront from the Ministry of Education, Culture, Science and Sports.

28. Share capital, other reserves and dividends**Share Capital**

	Number of shares authorised, issued and fully paid		Amount	
	31 December 2021	31 December 2020	31 December 2021 MNT'000	31 December 2020 MNT'000
Total Ordinary shares	172,097,820	6,599,006	172,097,820	58,071,253
Less: Treasury shares	–	(862,412)	–	(7,589,226)
Net shares at year end	172,097,820	5,736,594	172,097,820	50,482,027

On 1 September 2021, BoM has approved the request from the Bank of cancelling all treasury shares as of the date.

On 9 September 2021, BoM has approved the request of the Bank to increase the par value of its ordinary shares from MNT 8,800 to MNT 30,000 from the Bank's retained earnings, resulting in a net reduction in retained earnings of MNT 141,808,605 thousand including related tax effect.

On 11 October 2021, BoM has approved the request of the Bank to make share split of 30-for-1, resulting that number of ordinary shares increased from 5,736,594 to 172,097,820. The par value of its ordinary shares was reduced accordingly from MNT 30,000 to MNT 1,000.

As a result of the above, the following transactions took place as approved by the BOM:

1. The Bank cancelled its treasury shares, resulting a decrease in treasury shares of MNT 7,589,226 thousand and a net reduction in ordinary shares of same amount.
2. The Bank increased the par value of its ordinary shares from MNT 8,800 to MNT 30,000 from the Bank's retained earnings, resulting in a net increase in ordinary shares of MNT 121,615,793.
3. The Bank performed share split of 30-for-1, resulting in a net increase in the number of ordinary shares of 166,361,226 and the par value per share was reduced to MNT 1,000 from MNT 30,000.

The table below shows movement of the ordinary and treasury shares in 2021 and 2020:

	Ordinary shares Number of shares	Treasury shares Number of shares	Ordinary shares MNT'000	Treasury shares MNT'000
At 1 January 2021	6,599,006	862,412	58,071,253	7,589,226
Cancellation of treasury shares	(862,412)	(862,412)	(7,589,226)	(7,589,226)
Par value increase	–	–	121,615,793	–
Share split (30-for-1)	166,361,226	–	–	–
At 31 December 2021	172,097,820	–	172,097,820	–
At 1 January 2020	6,599,006	272,966	52,792,048	2,183,728
Par value increase*	–	–	5,279,205	218,373
Acquisition of treasury shares**	–	589,446	–	5,187,125
At 31 December 2020	6,599,006	862,412	58,071,253	7,589,226

*During prior period, the Bank increased the par value of its ordinary shares from MNT 8,000 to MNT 8,800 from the Bank's retained earnings, resulting in a net reduction in retained earnings of MNT 5,279,205 thousand.

**The Bank completed the repurchase of the 589,446 ordinary shares from IFC, resulting in an increase in treasury shares of MNT 5,187,125 thousand, and a net reduction in retained earnings of MNT 188,809,278 thousand during prior period. Under the terms of the Shareholders' agreement, the consideration of the IFC redemption price was USD 68 million (approximately MNT 193,996,403 thousand).

The shareholders of the Bank as of 31 December 2021 and 31 December 2020 and percentage of ownership are as follows:

	31 December 2021	31 December 2020
Sawada Holdins Co. Ltd	45.55%	45.55%
Tavan Bogd Trade Co. Ltd	25.31%	25.31%
Khulan D.	14.69%	14.69%
H.S. International (Asia) Ltd	14.45%	14.45%
Total ordinary shares	100.00%	100.00%

28. Share capital, other reserves and dividends (cont'd.)**Other reserves**

	Cash flow hedge reserve MNT'000	FVOCI reserve MNT'000	Asset revaluation reserve MNT'000	Total other reserves MNT'000
At 31 December 2021				
At 1 January 2021	6,791,008	13,140,012	92,638,403	112,569,423
Amortisation	–	–	(2,253,683)	(2,253,683)
Unrealised loss on FVOCI investments	–	(10,328,855)	–	(10,328,855)
Fair value loss on hedging instrument (Note 15)	(11,233,271)	–	–	(11,233,271)
Revaluation on hedging instrument reclassified to profit or loss against hedged item (Note 15)	121,608	–	–	121,608
Net realised loss reclassified to profit or loss	(169,896)	–	–	(169,896)
Net changes in allowance for expected credit losses on debt instruments at FVOCI (Note 9, 17)	–	227,861	–	227,861
Deferred tax asset recognised in OCI (Note 11.2)	2,820,390	2,525,248	–	5,345,638
Net movement to other comprehensive income	(8,461,169)	(7,575,746)	(2,253,683)	(18,290,598)
At 31 December 2021	(1,670,161)	5,564,266	90,384,720	94,278,825

	Cash flow hedge reserve MNT'000	FVOCI reserve MNT'000	Asset revaluation reserve MNT'000	Total other reserves MNT'000
At 31 December 2020				
At 1 January 2020	(534,066)	16,765,409	28,727,381	44,958,724
Amortisation	–	–	(881,298)	(881,298)
Gain on revaluation of premises (Note 19)	–	–	64,792,320	64,792,320
Unrealised loss on FVOCI investments	–	(4,102,198)	–	(4,102,198)
Amortisation of forward points (Note 7)	352,473	–	–	352,473
Fair value gain on hedging instrument (Note 15)	34,306,277	–	–	34,306,277
Revaluation on hedging instrument reclassified to profit or loss against hedged item (Note 15)	(28,822,344)	–	–	(28,822,344)
Net realised loss reclassified to profit or loss	3,930,359	–	–	3,930,359
Net changes in allowance for expected credit losses on debt instruments at FVOCI (Note 9, 17)	–	(731,665)	–	(731,665)
Deferred tax asset recognised in OCI (Note 11.2)	(2,441,691)	1,208,466	–	(1,233,225)
Net movement to other comprehensive income	7,325,074	(3,625,397)	63,911,022	67,610,699
At 31 December 2020	6,791,008	13,140,012	92,638,403	112,569,423

Dividends

The shareholders of the Bank had declared and approved dividend payment of MNT 200 billion on 15 February 2021. The dividend was approved by Bank of Mongolia on 18 June 2021. The first MNT 160 billion was distributed on 30 June 2021 and the remaining dividend of MNT 40 billion has been distributed on 27 July 2021.

29. Contingent liabilities and commitments

	2021 MNT'000	2020 MNT'000
Contingent liabilities		
Guarantees issued	129,567,459	84,664,448
Letters of credit	26,247,091	41,183,184
Undrawn credit lines	555,157,014	425,328,043
Undrawn credit cards	75,618,760	80,796,066
	786,590,324	631,971,741
Capital related commitments		
Property and equipment	13,019,502	8,941,424
Total	799,609,826	640,913,165

To meet financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 30).

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

Impairment allowance for off balance commitments

	Undrawn credit lines MNT'000	Letters of credits MNT'000	Guarantees issued MNT'000	Undrawn credit cards MNT'000	Total MNT'000
ECL allowance as at 1 January 2021	3,492,962	188,066	331,350	767,771	4,780,149
New exposures	16,466,980	242,741	1,812,629	2,013,033	20,535,383
Exposures derecognised or matured/lapsed	(16,106,213)	(300,242)	(1,488,538)	(1,546,434)	(19,441,427)
Net charge for the year (Note 9)	360,767	(57,501)	324,091	466,599	1,093,956
At 31 December 2021	3,853,729	130,565	655,441	1,234,370	5,874,105
ECL allowance as at 1 January 2020	1,542,517	111,931	431,454	368,664	2,454,566
New exposures	11,706,296	280,728	1,337,900	1,584,151	14,909,075
Exposures derecognised or matured/lapsed	(9,676,337)	(218,240)	(1,490,609)	(1,218,146)	(12,603,332)
Changes to models/assumptions	(79,514)	13,647	52,605	33,102	19,840
Net charge for the year (Note 9)	1,950,445	76,135	(100,104)	399,107	2,325,583
At 31 December 2020	3,492,962	188,066	331,350	767,771	4,780,149

An analysis of changes in the outstanding exposures and the corresponding ECL allowance as at 31 December 2021 and 31 December 2020 including credit quality is, as follows:

Undrawn credit lines

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2021	391,597,426	32,649,551	1,081,066	425,328,043
New exposures	2,260,882,420	88,991,023	493,195	2,350,366,638
Exposures derecognised or matured/lapsed	(2,112,078,589)	(107,569,288)	(889,790)	(2,220,537,667)
Transfer to/(from) Stage 1	1,515,182	(1,515,182)	–	–
Transfer to/(from) Stage 2	(8,072,615)	8,072,615	–	–
Transfer to/(from) Stage 3	–	(119,176)	119,176	–
At 31 December 2021	533,843,824	20,509,543	803,647	555,157,014

29. Contingent liabilities and commitments (cont'd)**Impairment allowance for off balance commitments (cont'd)****Undrawn credit lines (cont'd)**

	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
ECL allowance as at 1 January 2021	2,551,462	526,188	415,312	3,492,962
New assets originated or purchased	14,904,492	1,345,446	217,042	16,466,980
Assets derecognised or repaid	(14,196,102)	(1,585,493)	(324,618)	(16,106,213)
Transfer to/(from) Stage 1	24,620	(24,620)	–	–
Transfer to/(from) Stage 2	(58,890)	58,890	–	–
Transfer to/(from) Stage 2	–	(1,000)	1,000	–
At 31 December 2021	3,225,582	319,411	308,736	3,853,729

Credit quality of gross carrying amounts as at 31 December 2021

	2021			
	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Performing	533,843,824	15,829,498	–	549,673,322
Special mention	–	4,680,045	–	4,680,045
Substandard	–	–	62,201	62,201
Doubtful	–	–	11,215	11,215
Loss	–	–	730,231	730,231
Total	533,843,824	20,509,543	803,647	555,157,014

	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Outstanding exposure as at 1 January 2020	185,239,602	41,698	895,791	186,177,091
New exposures	1,588,881,160	19,025,445	563,022	1,608,469,627
Exposures derecognised or matured/lapsed	(1,357,171,592)	(11,688,902)	(458,181)	(1,369,318,675)
Transfer to/(from) Stage 1	144,739	(14,739)	(130,000)	–
Transfer to/(from) Stage 2	(25,366,464)	25,366,464	–	–
Transfer to/(from) Stage 3	(130,019)	(80,415)	210,434	–
At 31 December 2020	391,597,426	32,649,551	1,081,066	425,328,043
ECL allowance as at 1 January 2020	1,239,826	–	302,691	1,542,517
New assets originated or purchased	10,861,226	536,564	308,506	11,706,296
Assets derecognised or repaid	(9,228,346)	(241,019)	(206,972)	(9,676,337)
Transfer to/(from) Stage 1	47,636	(75)	(47,561)	–
Transfer to/(from) Stage 2	(247,610)	247,610	–	–
Transfer to/(from) Stage 2	(398)	(16,892)	17,290	–
Changes to models/ assumptions	(120,872)	–	41,358	(79,514)
At 31 December 2020	2,551,462	526,188	415,312	3,492,962

Credit quality of gross carrying amounts as at 31 December 2020

	2020			
	Stage 1	Stage 2	Stage 3	Total
	MNT'000	MNT'000	MNT'000	MNT'000
Performing	391,597,426	29,769,651	–	421,367,077
Special mention	–	2,879,900	–	2,879,900
Substandard	–	–	24,000	24,000
Doubtful	–	–	70,322	70,322
Loss	–	–	986,744	986,744
Total	391,597,426	32,649,551	1,081,066	425,328,043

29. Contingent liabilities and commitments (cont'd)**Impairment allowance for off balance commitments (cont'd)****Undrawn credit cards**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2021	79,538,764	442,598	814,704	80,796,066
New exposures	153,995,000	2,286,592	1,186,057	157,467,649
Exposures derecognised or matured/lapsed	(159,524,792)	(1,959,228)	(1,160,935)	(162,644,955)
Transfer to/(from) Stage 1	218,648	(201,509)	(17,139)	–
Transfer to/(from) Stage 2	(1,044,542)	1,051,728	(7,186)	–
Transfer to/(from) Stage 3	(8,503)	(278,696)	287,199	–
At 31 December 2021	73,174,575	1,341,485	1,102,700	75,618,760

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
ECL allowance as at 1 January 2021	281,125	9,341	477,305	767,771
New assets originated or purchased	544,540	682,857	785,636	2,013,033
Assets derecognised or repaid	(574,747)	(294,491)	(677,196)	(1,546,434)
Transfer to/(from) Stage 1	11,420	(1,322)	(10,098)	–
Transfer to/(from) Stage 2	(3,848)	8,088	(4,240)	–
Transfer to/(from) Stage 3	(33)	(76,569)	76,602	–
At 31 December 2021	258,457	327,904	648,009	1,234,370

Credit quality of gross carrying amounts as at 31 December 2021

	2021			
	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Performing	73,174,575	–	–	73,174,575
Special mention	–	1,341,485	–	1,341,485
Substandard	–	–	436,648	436,648
Doubtful	–	–	280,871	280,871
Loss	–	–	385,181	385,181
Total	73,174,575	1,341,485	1,102,700	75,618,760

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2020	75,625,323	496,228	75,801	76,197,352
New exposures	162,377,486	1,390,165	430,268	164,197,919
Exposures derecognised or matured/lapsed	(157,615,128)	(1,582,152)	(401,925)	(159,599,205)
Transfer to/(from) Stage 1	1,536,391	(1,506,997)	(29,394)	–
Transfer to/(from) Stage 2	(1,820,113)	1,850,494	(30,381)	–
Transfer to/(from) Stage 3	(565,195)	(205,140)	770,335	–
At 31 December 2020	79,538,764	442,598	814,704	80,796,066

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
ECL allowance as at 1 January 2020	264,929	37,620	66,115	368,664
New exposures	793,162	176,274	614,715	1,584,151
Assets derecognised or repaid	(849,392)	(141,236)	(227,518)	(1,218,146)
Transfer to/(from) Stage 1	59,102	(41,868)	(17,234)	–
Transfer to/(from) Stage 2	(14,948)	32,484	(17,536)	–
Transfer to/(from) Stage 3	(3,689)	(55,580)	59,269	–
Changes to models/ assumptions	31,961	1,647	(506)	33,102
At 31 December 2020	281,125	9,341	477,305	767,771

Credit quality of gross carrying amounts as at 31 December 2020

	2020			
	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Performing	79,538,764	–	–	79,538,764
Special mention	–	442,598	–	442,598
Substandard	–	–	223,376	223,376
Doubtful	–	–	189,640	189,640
Loss	–	–	401,688	401,688
Total	79,538,764	442,598	814,704	80,796,066

29. Contingent liabilities and commitments (cont'd)**Impairment allowance for off balance commitments (cont'd)****Guarantees issued**

	2021	2020
	Stage 1	Stage 1
	MNT'000	MNT'000
Outstanding exposure as at 1 January	84,664,448	126,261,478
New exposures	602,673,876	412,887,998
Exposures derecognised or matured/lapsed	(557,770,865)	(454,485,028)
At 31 December	129,567,459	84,664,448
ECL allowance as at 1 January	331,350	431,454
New exposures	1,812,629	1,337,900
Assets derecognised or repaid	(1,488,538)	(1,490,609)
Changes to models/ assumptions	–	52,605
At 31 December	655,441	331,350

Credit quality of gross carrying amounts

	2021	2020
	Stage 1	Stage 1
	MNT'000	MNT'000
Performing	129,567,459	84,664,448
Special mention	–	–
Substandard	–	–
Doubtful	–	–
Loss	–	–
Total	129,567,459	84,664,448

Letters of credits

	2021	2020
	Stage 1	Stage 1
	MNT'000	MNT'000
Outstanding exposure as at 1 January	41,183,184	29,066,244
New exposures	48,470,247	57,603,257
Exposures derecognised or matured/lapsed	(63,406,340)	(45,486,317)
At 31 December	26,247,091	41,183,184
ECL allowance as at 1 January	188,066	111,931
New exposures	242,741	280,728
Assets derecognised or repaid	(300,242)	(218,240)
Changes to assumptions	–	13,647
At 31 December	130,565	188,066

Credit quality of gross carrying amounts

	2021	2020
	Stage 1	Stage 1
	MNT'000	MNT'000
Performing	26,247,091	41,183,184
Special mention	–	–
Substandard	–	–
Doubtful	–	–
Loss	–	–
Total	26,247,091	41,183,184

Commitments

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

29. Contingent liabilities and commitments (cont'd)**Legal claims**

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

Tax dispute

During the year ended on 31 December 2017, a tax inspection on the Bank's tax filings was conducted by the tax authority covering the period from 1 January 2012 to 31 December 2016. As a result of the inspection, a number of initial findings were identified and the tax authority issued a demand notice for MNT 8,093,019 thousand to be paid by the Bank. The Bank has assessed the findings and has submitted a rejection letter to the Tax Authority of Mongolia on 23 February 2018. In addition, on 7 March 2018 the Bank submitted a claim to the Primary Court for Administrative Cases and the Tax Dispute Settlement Council. The Primary Administrative Court trial was held on 13 June 2019, whereas the court has ruled to dismiss the Bank's claim. However, the Bank did not agree with the Primary Administrative Court ruling and submitted a complaint to the Appellate Court for Administrative cases, whereas on 8 July 2019, the Appellate Court has dismissed the Primary Administrative Court's decision and the case has been returned to the Primary Administrative Court.

The Primary Administrative Court trial was held 22 December 2020, the court had ruled to temporarily suspend the tax inspection claim (except point 6 of the tax penalty with penalty of MNT 136 million) for three months. The Bank had filed a complaint to Appellate Court to dismiss the tax inspection claim altogether. The court hearing was held on 24 March 2021 and the Court had dismissed the case to Primary Administrative Court. The Bank had disagreed with the Appellate Courts dismissal to the Primary Court and filed review complaint to the Supreme Court on 17 May 2021. The Supreme Court dismissed the Bank's complaint and the case was remanded back to the Primary Administrative Court. The Primary Administrative Court session was scheduled on 13 September 2021, 17 October 2021 and 22 November 2021. During the last session held in November, the Primary Administrative Court has dismissed the case and returned it to Tax Dispute Settlement Council. The date of council session has not been determined yet. The Bank filed an appeal against the Primary Administrative Court decision on 7 December 2021. The Appellate Court for Administrative was held on 21 December 2021, during which the court upheld Bank's complaint and ruled to annul the Primary Administrative Court.

A provision for tax penalty in total of MNT 1,000,000 thousand was provided for as at 31 December 2021 and 31 December 2020, representing management's best estimate of the potential outcome.

Deposit Insurance Corporation claim

On 6 September 2018, Deposit Insurance Corporation ("DIC") have filed a claim against the Bank for an amount of MNT 1 billion, being the deposit insurance fee payable on the Development Bank of Mongolia's current and deposit account balances held with the Bank. The Bank does not agree with DIC's view and response letter has been submitted to the court on 1 October 2018. Further on 18 January 2019, DIC had submitted an additional claim for MNT 667 million, being the potential income lost on the claimed insurance fee, thus making the total claim amounting MNT 1.6 billion.

The dispute had arisen as a result of a different legal interpretations between the two parties. The Primary Court hearing was held on 2 May 2019, upon which the Court ruled to fulfil the initial claim of MNT 1 billion and suspended the additional claim. However, the Bank disagreed with the Primary Court's decision and filed a complaint to the Appellate Court. The Appellate Court trial was held on 5 July 2019, whereas the Appellate Court has dismissed the Primary Court's decision. The case has been discussed at Supreme Court on 23 January 2021 and dismissed to the Primary Administrative Court. Supreme Court carried out an inspection in the Bank of Mongolia starting from 6 October 2021. As of 31 December 2021, the Bank of Mongolia was in the process of issuing evidence and the Primary Administrative Court hearing date has not yet been set. Management is of the opinion that the ultimate resolution of the case will be favourable to the Bank. Hence the Bank did not recognise any liability as at 31 December 2021 and 31 December 2020.

As of 31 December 2021, there were no major litigations other than above.

30. Risk management**30.1 Introduction**

The main risk types inherent in the Bank's business are credit risk, liquidity risk, market risk, operational risk, legal and compliance risk, IT and information security risk.

The independent risk control process does not include business risks such as changes in the environment, technology, and industry. These risks are controlled through the Bank's strategic planning process.

The main goal of the Bank's risk management is to identify and manage risks that have a potential effect on the strategy and objectives of the Bank within its risk appetite. An effective risk management process is critical to the Bank's continued profitability, and each Bank employee is responsible for reporting, managing and monitoring potential risks.

30. Risk management (cont'd.)

30.1 Introduction (cont'd.)

With the exception of Legal, Compliance, and Information technology risks, risk management is overseen by units under the second line of defense and it is reported directly to the Vice President Chief Risk Officer (hereinafter referred to as the VP CRO). Legal and Compliance Risks are overseen by the Chief Executive Officer, and Information Technology Risks are overseen by the Vice President Chief Information Officer.

The Bank has a clearly defined risk management framework designed to optimise risk and return trade-off. The risk management framework in place is to ensure that:

- (i) Individuals who manage the risks understand the requirement and measurement system;
- (ii) The Bank's risk exposure is within limits established by the Board of Directors ("the Board");
- (iii) The capital allocation, where applicable, is consistent with the risk of exposures of the Bank; and
- (iv) The Bank's performance objectives are aligned with the risk appetite and tolerance.

Risk management structure

The Board has primary responsibility for overseeing the risk management framework of the Bank and may delegate its responsibilities to Board Risk committee.

Board Risk Committee ("BRC")

BRC assists the Board of Directors in fulfilling its responsibility of overseeing the risk exposures of the Bank. BRC works to provide risk management and control system that accommodates the general risk level of the Bank and monitors its implementation. The BRC also identifies core components of the Bank's risk management, reviews monthly reports by Risk Management Committee and Compliance Committee and ensures the risk appetite and limits approved by the Board are followed.

Board Audit Committee

Board Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for the integrity of the Bank's financial statements and disclosures, its compliance with legal and regulatory requirements, and internal controls and audit functions.

Executive management committee

Executive Management Committee consists of all senior executive management of the Bank and holds weekly meetings to discuss and decide the Bank's strategic issues and planning required for sustainable business management and responsible for decision-making on establishing and dissolving head office committees and approving committee members.

Risk Management Committee

Risk Management Committee is responsible for regular monitoring of the Bank's risk management framework and risk management process, assessing significant material risks throughout the Bank, and developing necessary strategies and actions for risk mitigation. The committee uses the Risk Dashboard as a critical tool in documenting material risks, their levels, and treatment actions. The Risk Dashboard is updated and maintained monthly to assist in decision-making. Risk Management Committee is chaired by VP CRO and holds regular meetings once a month.

Asset and Liability Committee ("ALCO")

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

Credit Risk Committee

The Bank has two levels of credit risk committees, which are Head office credit risk committee (hereinafter referred to as "HOCRC") and branch-level credit risk committees. Branch-level credit risk committees include SME Credit risk committee, Branch credit risk committee of UB retail banking and Branch credit risk committee of Rural retail banking. HOCRC meeting is held on weekly basis and other credit risk committee meetings are held at least once a month.

HOCRC discusses and approves loan products and services, their general terms, loan operation and credit risk related procedures and sets internal credit risk limits. In addition, HOCRC discusses total loan portfolio quality, concentration risks, adequacy of loan loss provision, early warning system implementation, the performance of internal limits, compliance of covenant requirements, makes relevant decisions and monitors. HOCRC is chaired by the VP CRO.

Branch-level credit risk committees discuss portfolio quality and loan with problem of their affiliate branch units, develop mitigating measures and action plans and monitor the fulfilment.

30. Risk management (cont'd.)**30.1 Introduction (cont'd.)****Credit Committees**

The Bank's Credit Committees structure is organized through distributing approval authority at each level depending on loan amount. The Bank established below types of credit committees for loan approval and monitoring:

1. Head Office Credit Committee (hereinafter referred to as "HOCC") is primarily responsible for approving all credit exposures over MNT 3 billion. Depending on the borrowers' risk classification and total exposure, decision making authorities of HOCC and the Board will be as follows. Herein:

authorities of HOCC and the Board will be as follows. Herein:

	MNT billion			
Borrower risk rating	> MNT 3 ≤ MNT 10	>MNT 10 ≤ MNT 25	> MNT 25 ≤ 5% of Equity	> 5% of Equity <
Low risk (1-4) (green)	HOCC	HOCC	HOCC	Board
Moderate risk (5-7) (yellow)	HOCC	The Board		
High risk (8-10) (red)	The Board			

HOCC sets and approves lending limits of the following credit committees:

- a. Head office credit sub-committee (hereinafter referred to as "HOSCC"),
 - b. SME credit committee (hereinafter referred to as "SMECC")
 - c. Ipotek mortgage credit committee (hereinafter referred to as "IMCC")
 - d. Branch credit committee of UB retail banking (hereinafter referred to as "BCCUBRB")
 - e. Branch credit committees of Rural retail banking (hereinafter referred to as "BCCRBR")
 - f. Rural joint-decision making committee of Rural retail banking (hereinafter referred to as RJDMCRRB)
2. HOSCC approves credit exposures up to MNT 3 billion, which are above the approval limits of SMECC.
 3. SMECC approves credit exposures of up to MNT 800 million for business centres of SME banking.
 4. IMCC approves mortgage loans up to MNT 500 million for branches of Retail banking and business centres of SME banking.
 5. BCCUBRB approves credit exposures of up to MNT 500 million except mortgage loans for branches of UB retail banking.
 6. BCCRBR authority shall be different depending on population at that area and market features and approves credit exposures amounted between MNT 120 million and MNT 400 million. In case where risk analyst of the Corporate Credit Risk Department joins in BCCRBR as a voting member, BCCRBR shall have the authority of decision and approval for credit amounted up to MNT 500 million. Head of Corporate Credit Risk Department reserve the authority to change the lending limits of BCCRBR within the HOCC's approved lending limits by taking into account factors such as market demand and loan portfolio quality
 7. RJDMCRRB approves credit exposures of up to MNT 500 million except mortgage and business loans for branches of Rural retail banking

Credit policy regulation department

Primary responsibilities of Credit policy regulation department (hereinafter referred to as "CPRD") shall be as follows:

- Formulating and developing loan policy, loan product and loan operation procedures,
- Cooperating with third party on project and green loan products and regulating related operations,
- Developing and making improvement on loan programs and loan process automation projects,
- Regulating operations and cooperation related to leasing loan products,
- Carrying out an analysis of mortgage-backed bonds, selling packages, providing services to sold packages, cooperating with relevant units,
- Conducting market and competitive analysis and research and determining loan pricing and other terms and conditions,

Corporate credit risk department

Primary responsibilities of Corporate credit risk department (hereinafter referred to as "CCRD") shall be as follows:

- Assessing and identifying credit risk with high amount (material) as well as being engaged in decision making processes;
- Monitoring loan operations with risk and corporate credit portfolio, on a regular basis, within risk appetite statement, for reporting to Executive management and BOD risk committee on a regular basis;
- Identifying loan as "Under special mention" for its regular monitoring and formulating action plan upon development of an Early warning system;
- Implementing control prior to disbursement of corporate banking and high amounted SME loans;

30. Risk management (cont'd.)

30.1 Introduction (cont'd.)

Credit Committees (cont'd)

Corporate credit risk department (cont'd)

- Maintaining system development and improvement for credit risk assessment as well as ensuring regular monitoring;
- Demonstrating strategy for reducing non-performing loans, taking relevant measures and collaborating with outsourcing companies for reduction of non-performing loans;
- Establishing and calculating loan loss provisions according to “Regulation on asset classification, provisioning and its disbursement” by the Bank of Mongolia and IFRS-9;
- Monitoring and reporting the ratio indicators related to loan portfolio quality determined by International lending organizations;
- Making appraisal on collateral and construction project for regular monitoring, determining and updating benchmark assessment for apartment and private housing.

Retail credit risk department

Retail Credit Risk Department has (hereinafter referred to as “RCRD”) primary responsibilities as follows:

- To identify the factors which affect quality of retail loan portfolio and provide support to prevent and/or mitigate risks and to keep the portfolio risk at tolerable level,
- To determine the strategic directions and applicable principles on retail loan portfolio monitoring and collection processes and to provide support to implement those strategies and principles,
- To improve retail loan portfolio and its risk-related processes, to provide necessary guidelines and recommendations; to collaborate with relevant departments and units,
- To participate in loan decision making and monitoring processes under the particular product and/or operational procedure,
- To develop action plans to be implemented to improve quality and scoring of retail loan portfolio and to prevent and/or mitigate related risks,
- To extract the necessary data required for retail credit risk management process, to develop reports, and to develop and improve Behavioural Scoring & Application Scoring and other necessary scoring models and make relevant adjustments

Collections Department and Special Assets Department

Collections Department (hereinafter referred to as “CD”) is responsible for collecting loans from customers of UB retail banking branches and units and transferred from rural branches and taking relevant measures.

Special Assets Department (hereinafter referred to as “SAD”) is responsible for collecting loans, receivables and other asset liabilities, which have not been paid for long period, transferred to bad loan categorization as per asset classification, in a court and out-of-court ways and taking measures for due loans and assets.

Heads of CPRD, CCRD, RCRD and SAD reports to VP Chief Risk Officer. After the changes in organizational structure of the Bank, the collections department is now operating under Retail Banking and CD is reporting to VP Retail Distributions.

IT Steering Committee

IT Steering Committee is responsible for ensuring that the Bank’s business and IT strategies and business plans are aligned to identify needs and priorities for IT systems for new and existing product enhancements and to identify and resolve business issues arising from IT. IT Steering Committee is chaired by VP Chief Information Officer.

The Business and Product Development Committee

Business and Product Development Committee is responsible to approve all products and services (except loan products) policy, terms and conditions, operating procedures, forms and templates, fees and commission levels and/or any changes/improvements made after initial approval in response to evolving customer needs, market conditions and/or Bank’s business strategy. The committee exercises the risk control function by reviewing product and service risk assessments, and directing responsible unites to mitigate/reduce identified risks. The committee is chaired by DCEO.

Internal Audit

Internal audit core role with regard to the risk management of the Bank is to provide objective assurance to the Board on the effectiveness of risk management. Therefore, Internal audit assesses the effectiveness of risk management processes of determining objectives and goals, identifying and assessing significant risks and selecting appropriate risk response to align with the risk appetite, and communicating risk information.

30. Risk management (cont'd.)**30.1 Introduction (cont'd.)****Internal Audit (cont'd)**

In addition, internal audit activity evaluates risk exposures of the Bank's governance, operations, and information systems regarding the:

- Achievement of strategic objectives,
- Reliability and integrity of financial and operational information,
- Effectiveness and efficiency of programs and operations,
- Safeguarding of assets and
- Compliance with laws, regulations, policies, procedures, and contracts.

Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

Risk measurement and reporting system

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which is an estimate of the actual ultimate loss based on statistical models.

The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify emerging risks. This information is presented and explained to the Board, BRC, Risk Management Committee, when applicable to ALCO. The reports include the aggregate credit exposure, credit metric forecasts, Value-at-Risk measures (VaR), liquidity ratios and risk profile changes.

Both BRC and Risk Management Committee receive a comprehensive risk report every month which is designed to provide all the necessary information to assess and conclude on the risk exposure of the Bank.

Risk mitigation

As part of its overall risk management, the Bank internally uses Value-at-Risk methodology, static gap analysis and basis sensitivity analysis to measure and monitor market risk exposures resulting from changes in interest rates and foreign currencies. The Bank develops a strategic plan to reduce non-performing assets in order to mitigate credit risk, and implements this plan for day to day operation. According to the strategic plan, the Bank performs detailed assessment on external and internal factors of the credit risk and prepares suitable action plan to mitigate those identified risks.

Excessive Risk Concentration

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. At the individual basis, BOM sets the standards of limitation as follows:

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

The Bank sets following internal limits as follows:

Sum of loans, loan equivalent assets and non-cash covered contingent liabilities that are disbursed to single borrower, and its affiliated party shall not exceed 10% of bank equity. Deposit and gold secured loan, cash covered amount, or contingent liability amount shall be deducted.

30. Risk management (cont'd.)**30.1 Introduction (cont'd.)****Excessive Risk Concentration (cont'd)**

Under Bank's Risk Appetite Statement, the Bank sets the following internal limitation related to the sector concentration:

- (i) Total loan portfolio issued to the construction sector is constrained within 10% of the total loan portfolio
- (ii) Total loan portfolio issued to the mining sector is constrained within 10% of the total loan portfolio
- (iii) Total loan portfolio issued to the agricultural sector is constrained within 5% of the total loan portfolio;
- (iv) Total unsecured FX loan portfolio is constrained within 5% of the total loan portfolio
- (v) Total loan portfolio issued to the fuel import and trading is constrained within 7.5% of the total loan portfolio

Credit risk is the risk that the Bank could incur a loss due to a borrower's failure to repay a loan or meet contractual obligations. The Bank manages and controls credit risk by carefully screening credit applications, setting interest rate adjusted for risk level, and setting limits on credit exposures for individual counterparties and industry, and monitoring exposures in relation to such limits.

The Bank's loan monitoring is regulated by Khan Bank Lending operations procedure. Loan monitoring is performed in phases from the loan application to the completion of the loan repayment. The loan review process is conducted periodically with a specified frequency depending on the loan product, type and size. In order to identify potential credit risk at the early stage before the loan becomes delinquent, the Bank monitors warning signals and takes early corrective actions. CCRD develops the Early warning systems and monitors warning signals in accounts and transactions of the large volume loans. Business units monitor individual borrower's behavioural warning signals.

Credit officer of branch units shall regularly contact with the customer after loan disbursement and regularly monitor business operation and loan usage. The loan shall be listed in the "Watch list" on the conditions such as constant decline or rapid increase in sales income, a major change in business operation, and other changes that affect borrower's financial capability in detecting by EWS assessment and periodic reviews. Credit officer of branch units shall take actions of re-analyzing and reassessing potential risks when communicating with a potential past-due customer who is listed in the "Watch list" and shall take preventive measures for a potential past-due loan. Borrowers who are classified in the "Watch list" shall be contacted 1-2 days prior to the loan repayment schedule for a reminder. Also, in order to detect credit risk at early stage and mitigate the risk, "Loan frequent review and monitoring procedure" was approved and implemented in October 2021. Within the framework of this procedure, the department/branch has financial and non-financial monitoring on customers who has outstanding business loan amounted over MNT 500 million at least once a year, result of the monitoring is be presented to the relevant level risk committee and identify the Watchlist, develops an action plan and reports the consolidated result of the frequent reviews to the Board Risk Committee once in half year.

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

Credit-related Commitments Risks

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

30. Risk management (cont'd.)**30.1 Introduction (cont'd.)****Analysis of risk concentration**

The table below shows the analysis per industry sector of the Bank's loans and advances to customers (Note 16) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

31 December 2021	Gross maximum exposure							
	Business loan		Consumer loan		Agricultural loan		Total	
	MNT'000	%	MNT'000	%	MNT'000	%	MNT'000	%
Individuals	–	0%	2,445,044,993	100%	–	0%	2,445,044,993	35%
Trade and commerce	1,477,561,118	37%	–	0%	7,388	0%	1,477,568,507	21%
Construction	637,921,898	16%	–	0%	8,513	0%	637,930,411	9%
Processing	408,923,280	10%	–	0%	8,385	0%	408,931,666	6%
Real estate	149,969,987	4%	–	0%	–	0%	149,969,987	2%
Mining	242,913,081	6%	–	0%	–	0%	242,913,081	3%
Transportation	248,400,886	6%	–	0%	–	0%	248,400,886	4%
Health and social organizations	65,441,543	2%	–	0%	6,231	0%	65,447,773	1%
Agriculture	71,605,907	2%	–	0%	256,247,332	43%	327,853,239	5%
Other	675,909,686	17%	–	0%	337,666,283	57%	1,013,575,969	14%
	3,978,647,386	100%	2,445,044,993	100%	593,944,132	100%	7,017,636,511	100%

31 December 2020

Individuals	–	0%	2,149,130,676	100%	–	0%	2,149,130,676	41%
Trade and commerce	1,013,656,249	37%	–	0%	6,105	0%	1,013,662,354	19%
Construction	360,837,558	13%	–	0%	10,406	0%	360,847,964	7%
Processing	245,402,347	9%	–	0%	–	0%	245,402,347	5%
Real estate	123,692,060	5%	–	0%	–	0%	123,692,060	2%
Mining	291,177,971	11%	–	0%	4,821	0%	291,182,792	6%
Transportation	126,741,587	5%	–	0%	–	0%	126,741,587	2%
Health and social organizations	45,834,606	2%	–	0%	16,998	0%	45,851,604	1%
Agriculture	93,474,743	3%	2,151,296	0%	151,636,093	37%	247,262,132	5%
Other	424,483,772	16%	–	0%	261,765,813	63%	686,249,585	13%
	2,725,300,893	100%	2,151,281,972	100%	413,440,236	100%	5,290,023,101	100%

Overview of modified and forborne loans

From a risk management point of view, once an asset is forborne or modified, the Bank's special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

The table below shows the gross carrying amount of restructured financial assets with corresponding ECL for the year ended 31 December 2021 and 2020, as follow:

	2021 MNT'000	2020 MNT'000
<i>Restructured loans:</i>		
Gross carrying amount	111,509,998	139,766,893
Corresponding ECL	86,164,374	100,916,469

30. Risk management (cont'd.)**30.1 Introduction (cont'd.)****Overview of modified and forborne loans (cont'd)***Modification loss*

The Government of Mongolia has imposed several measures to ease the credit pressure on consumers and businesses due to the Covid-19 outbreak. One of the measures were loan payment holiday to borrowers, particularly government funded mortgage loans in relation to the Mortgage funding program. Table below shows amortised cost of financial assets and liabilities and net modification loss:

	2021 MNT'000	2020 MNT'000
Amortised cost of financial assets modified during the period	179,776,814	142,624,343
Amortised cost of financial liabilities modified during the period	114,573,465	96,667,107
Net modification loss (Note 8)	(5,576,148)	(6,070,711)

30.2 Credit risk**Collateral and other credit enhancements**

The amount and type of collateral required are subject to the assessment of the credit risk of the borrower or counterparty and the type of loan granted. The main types of collateral obtained are as follows:

- (i) corporate lending: charges over real-estate properties, inventories, plant and equipment, machinery and vehicles;
- (ii) small and medium business lending: charges over real estate properties and inventories;
- (iii) consumer lending: charges over automobiles and assignment of income; and charges over real estate properties;
- (iv) residential mortgages: mortgages over residential properties.

According to the Bank's Lending operations procedure, it requires all loans to be 100% collateralised by risk assessed price ("RAP") except salary loans and pension loans. However, if it is otherwise stated in specific loan product procedures, collateral RAP can be lower than 100% of the loan amount.

Appraisers of the CCRD uses three types of valuation methods to appraise the value of collateral, namely the income approach, the cost approach and the market-based approach.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries and personal guarantees from the main shareholders for the limited liability entities, but the potential benefits are not included in the above.

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

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

Disclosure of credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year end stage classification are further disclosed in Notes 13, 14, 16 and 17.

Where financial instruments are recorded at fair value the amounts shown in Note 17 represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The table below summarise the Bank' collateral for loans and advances to customers and corresponding Loan-to-Value ("LTV") ratio:

	Gross carrying amount MNT'000	Collateral value MNT'000	LTV ratio
At 31 December 2021			
Business loans	3,978,647,386	14,640,943,873	27%
Consumer loans	2,445,044,993	4,561,508,098	54%
Agricultural loans	593,944,132	4,271,788,495	14%
	7,017,636,511	23,474,240,466	30%
At 31 December 2020			
Business loans	2,725,300,893	8,998,417,049	30%
Consumer loans	2,151,281,972	4,720,099,062	46%
Agricultural loans	413,440,236	3,507,969,142	12%
	5,290,023,101	17,226,485,253	31%

30. Risk management (cont'd.)**30.2 Credit risk (cont'd.)****Impairment assessment****Definition of default**

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As part of a qualitative assessment of whether a customer is in default, the Bank specifically considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past-due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'recovered' and therefore re-classified out of Stage 3 when none of the default criteria has been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Individually assessed allowances

The Bank estimates loan loss reserve for each significant loan per segment and down payment. If there is a factual evidence of loan impairment, expected loan impairment loss will be calculated. Factual evidence of loan impairment may include financial difficulties, failed to fulfill its contractual obligations or past due, amendment to contract terms, impairment of collateral, etc. The amount of impairment is determined by the borrower's business stability, ability to improve performance in the event of financial difficulties, payments to be received and expected dividend payments in the event of bankruptcy, access to other financial support, fair value of collateral, and expected cash flows.

Collectively assessed allowances

All loans and down payments that are not significant by itself and loans and down payments that are significant by itself, but do have factual evidence of loan impairment estimated by special assessment, are divided into phase, grouped by similar characteristics or product and group risk assessment is performed.

Expected loss is determined based on forward-looking economic scenarios, probability of default ('PD) and loss given default (LGD) at each phase. The Bank calculates probability of default (PD) rate and loss given default (LGD) rate for the next 12 months for each group, by taking into account of further recent data and forward-looking economic scenarios. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in GDP, Inflation etc.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial assets to the impairment calculation. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of financial assets.

Loss given default

LGD values are assessed at least every quarter by the credit risk department. The credit risk assessment is based on the LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

30. Risk management (cont'd.)**30.2 Credit risk (cont'd.)****Impairment assessment (cont'd)****Loss given default (cont'd)**

The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (product type).

LGD is estimated based on historic information. The Bank divides its loan portfolio into following main groups depending on loan purpose:

Business loans which include:

- Business loans
- Term loans
- Express micro loans

Consumer loans which include:

- Salary loans
- Pension loans
- Mortgage loans
- Leasing loans
- Staff loans
- Secured by apartment loans
- Secured by deposit loans

Agricultural loans which include:

- Agricultural loans
- Herder loans

Credit risk stress testing

Stress test was performed based on the historical data of PD by using the econometrical tools. The data set includes a quarterly time series of main macro indicators, probability of default and loss given default per loan product for the period 2014-2020. Macro variables are taken from the database of the National Statistical Office and PD is taken from the Bank's internal database. The main macro variables for stress testing are selected based on their correlations with PD, which are the highest.

In terms of the methodology, PD, the dependent or explanatory variable, is estimated with the correlation coefficient depends on the independent variables of the macro economy, which are selected based on the impact rate. An indicator is developed by using the independent variables to indicate the macroeconomic environment. Criteria for the growth, normal and stress scenarios are also developed based on the historical distribution data. The average prediction of the macroeconomic is developed based on predictions of the macro variables by multiple entities. The possible value of the best or worst-case scenario is calculated as subtracting or adding 1 standard deviation to the average prediction.

The below table sets out the results of stress testing (LLP) under two different scenarios including base and severe. The actual figure, or actual LLP as of 31 December 2021 chosen as the severe scenario.

Multiplier	Business	Consumer	Agricultural
Baseline forecast	1.05	1.00	1.04
Severe forecast	1.45	1.00	2.00

According to the Bank's internal policy, forward-looking multiplier is bounded between 1 and 2. The policy reflects following perspectives. First, since there is no evidence that future economic will clearly improve, the multiplier less than 1 is set to 1. Second, to prevent unrealistically large fluctuation in PD calculation, the multiplier exceeds 2 is set to 2.

Provision	Business	Consumer	Agricultural	LLP	MNT'000 Changes
Baseline forecast	309,159,575	98,108,246	2,202,004	409,469,825	18,867,887
Severe forecast	326,797,695	98,108,246	3,431,771	428,337,712	

Due to the Covid-19 pandemic, the Government of Mongolia had restricted some economic sector's operation, such as education, service, and more on. The Bank considered that business loans distributed to Covid impacted sectors had a significant increase in credit risk and downgraded these business loans to stage 2.

30.3 Liquidity risk

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

The Bank always holds a sufficient amount of liquid assets which is much higher than the level required by the BoM. In addition, the Bank complies with the reserve requirement of 6% percent of customer's MNT deposits (decreased from 8.5% to 6% on 23 November 2020) and 18% of customer's USD deposit (increased from 15% to 18% on 16 December 2021) based on the average period of two weeks.

KHAN BANK LLC
Notes to the financial statements – 31 December 2021
30. Risk management (cont'd.)
30.3 Liquidity risk (cont'd.)
Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial assets and liabilities at 31 December 2021 and 2020 based on contractual undiscounted repayment obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31 December 2021	On demand MNT'000	Less than 3months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Assets							
Cash and cash equivalents	1,964,776,732	3,380,294,431	–	–	–	–	5,345,071,163
Due from banks	–	–	–	–	–	–	–
Gross settled swaps and forward:							
– Inflows	–	95,770,717	8,587,669	117,611,915	291,001,298	–	512,971,599
– Outflows	–	(86,323,286)	(8,198,160)	(107,528,906)	(283,834,719)	–	(485,885,071)
Loans and advances to customers at amortised cost	–	1,029,214,448	991,746,895	1,612,403,633	3,248,818,033	540,432,799	7,422,615,808
Loans and advances to customers at FVPL	–	27,500,669	31,215,298	78,033,382	308,892,273	365,373,415	811,015,037
Financial assets at FVPL	–	10,576,582	3,610,939	7,301,238	57,933,740	379,414,135	458,836,634
Debt instruments at FVOCI	–	5,097,058	3,874,221	24,063,156	155,774,989	43,703,021	232,512,445
Debt instruments at amortised cost	–	14,518,609	11,887,817	122,972,971	469,544,981	–	618,924,378
Other financial assets	–	2,420,721	–	–	–	–	2,420,721
Total financial assets	1,964,776,732	4,479,069,949	1,042,724,679	1,854,857,389	4,248,130,595	1,328,923,370	14,918,482,714
Liabilities							
Due to banks	29,305,284	6,581,769	–	–	–	–	35,887,053
Repurchase agreement	–	254,182,596	6,289,065	124,715,874	266,549,386	–	651,736,921
Due to customers	3,319,904,967	1,792,319,315	1,509,989,509	2,372,815,864	1,148,660,707	259,566,301	10,403,256,663
Derivative financial instruments	–	319,756	–	–	–	–	319,756
Borrowed funds	–	128,506,526	19,569,539	428,446,824	671,824,838	38,284,295	1,286,632,022
Other financial liabilities	–	100,046,251	–	–	–	–	100,046,251
Lease liabilities	–	1,052,469	1,078,634	2,188,835	6,765,757	–	11,085,695
Undrawn credit lines	555,157,014	–	–	–	–	–	555,157,014
Guarantees issued	129,567,459	–	–	–	–	–	129,567,459
Letters of credit	26,247,091	–	–	–	–	–	26,247,091
Undrawn credit cards	75,618,760	–	–	–	–	–	75,618,760
Total financial liabilities	4,135,800,575	2,283,008,682	1,536,926,747	2,928,167,397	2,093,800,688	297,850,596	13,275,554,685
Net	(2,171,023,843)	2,196,061,267	(494,202,068)	(1,073,310,008)	2,154,329,907	1,031,072,774	1,642,928,029

KHAN BANK LLC
Notes to the financial statements – 31 December 2021
30. Risk management (cont'd.)
30.3 Liquidity risk (cont'd.)
Analysis of financial assets and liabilities by remaining contractual maturities (cont'd)

31 December 2020	On demand MNT'000	Less than 3months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Assets							
Cash and cash equivalents	2,047,384,632	3,532,113,847	–	–	–	–	5,579,498,479
Due from banks	–	400,195	–	–	96,580,861	–	96,981,056
Gross settled swaps and forward:							
– Inflows	–	151,844,955	42,718,986	172,656,049	315,579,096	–	682,799,086
– Outflows	–	(134,055,915)	(36,801,100)	(151,301,827)	(278,545,962)	–	(600,704,804)
Loans and advances to customers at amortised cost	–	759,839,360	744,816,616	1,463,815,906	2,959,616,349	520,594,202	6,448,682,433
Loans and advances to customers at FVPL	–	5,513,921	4,892,139	13,931,662	101,393,670	111,070,334	236,801,726
Financial assets at FVPL	–	7,115,056	2,896,017	5,855,682	46,463,564	286,322,137	348,652,456
Debt instruments at FVOCI	–	4,046,357	24,603,573	5,596,546	200,054,091	–	234,300,567
Debt instruments at amortised cost	–	62,426,558	154,253,640	21,110,742	357,210,114	–	595,001,054
Other financial assets	–	21,252,715	–	–	–	–	21,252,715
Total financial assets	2,047,384,632	4,410,497,049	937,379,871	1,531,664,760	3,798,351,783	917,986,673	13,643,264,768
Liabilities							
Due to banks	16,350,456	9,505,005	–	–	–	–	25,855,461
Repurchase agreement	–	79,910,963	–	–	118,165,662	–	198,076,625
Due to customers	2,824,180,177	1,667,828,848	1,724,899,822	1,940,016,105	1,190,938,196	234,946,991	9,582,810,139
Derivative financial instruments	–	206,964	–	–	–	–	206,964
Borrowed funds	–	166,370,818	156,825,133	367,559,201	523,445,774	19,379,061	1,233,579,987
Other financial liabilities	–	97,115,078	–	–	–	–	97,115,078
Lease liabilities	–	1,522,086	1,905,909	4,048,528	483,884	–	7,960,407
Undrawn credit lines	425,328,043	–	–	–	–	–	425,328,043
Guarantees issued	84,664,448	–	–	–	–	–	84,664,448
Letters of credit	41,183,184	–	–	–	–	–	41,183,184
Undrawn credit cards	80,796,066	–	–	–	–	–	80,796,066
Total financial liabilities	3,472,502,374	2,022,459,761	1,883,630,864	2,311,623,834	1,833,033,516	254,326,052	11,777,576,401
Net	(1,425,117,742)	2,388,037,288	(946,250,993)	(779,959,074)	1,965,318,267	663,660,621	1,865,688,367

30. Risk management (cont'd.)**30.4 Market risk**

The Bank is exposed to market risk, which is potential loss that the fair value or cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Despite the high levels of uncertainty in the financial market due to Covid-19, during the reporting year the Bank effectively managed the potential loss through its market risk management framework at appropriate level.

The Bank measures and monitors this risk element using Value-at-Risk methodology, static gap analysis and sensitivity analyses, and ALCO sets and enforces internal risk limits including stop-loss limit, position limits, cash flow limits for non-deliverable FX derivative, trading limit with banks and customers, and total credit exposure limits.

Moreover, the Bank performs stress testing on its material risks on a quarterly basis in order to assess risk bearing capacity of the Bank, further determine whether Bank has adequate capital and liquidity to endure a loss due to major changes and create additional capital reserve required for overcoming crisis and to improve an effectiveness of the action plan for unexpected situation. To ensure the achievement of the risk management, the Bank continuously develops and implements market risk measurement models, methodologies, limit setting processes as well as risk mitigation techniques in accordance with international best practices and standards.

Interest rate risk**IBOR reform**

Following the decision by global regulators to replace IBORs with alternative reference rates, the Bank plans to monitor any contractual arrangements that may be affected by the benchmark rate transfer and to assess the impact on the value of financial instruments in advance.

Interest rate benchmarks the Bank is exposed to is scheduled to cease immediately after 30 June 2023 and the Bank has not yet determined the transition date.

IBOR reform exposes the Bank to the following various risks but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
- Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs

The table below shows the Bank's exposure at the year end to significant IBORs subject to reform that have yet transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition no later than immediately after 30 June 2023.

	Non-derivative financial assets carrying value MNT'000	Non-derivative financial liabilities carrying value MNT'000	Derivatives Nominal amount MNT'000
At 31 December 2021			
USD LIBOR (3M)	–	2,595,318	108,168,936
USD LIBOR (6M)	–	531,358,249	107,684,640
USD LIBOR (12M)	–	1,969,874	297,986,108
	–	535,923,441	513,839,684
	Non-derivative financial assets - carrying value MNT'000	Non-derivative financial liabilities carrying value MNT'000	Derivatives Nominal amount MNT'000
At 31 December 2020			
USD LIBOR (3M)	–	18,252,468	–
USD LIBOR (6M)	–	590,149,620	8,548,530
USD LIBOR (12M)	–	–	663,747,496
	–	608,402,088	672,296,026

30. Risk management (cont'd.)**30.4 Market risk (cont'd)****Interest rate risk (cont'd)**

The Bank measures and monitors the potential interest rate risk exposures on both banking and trading book positions. Changes in market interest rates directly impacts bank's projected net interest income in the short term and impacts economic value of equity in the long term. In order to maintain the risk from market interest rate changes at the minimum, the Bank uses standard approaches and interest rate shock scenarios set out in the methodologies developed by the Basel Committee on Banking Supervision. Using the above mentioned methodologies ALCO approves internal risk limits. Herein:

- To manage interest rate risk in trading book the bank optimally sets the constraints such as position limit and stop loss limit using Liquidity adjusted Value-at-Risk method.
- To manage interest rate risks on the banking book the bank uses an earnings and economic value perspectives and monitoring associated limits adherence in the bank on the monthly basis.

In addition, the Bank ensures compliance with interest rate risk gap ratios set by the international financial institutions and performs interest rate stress testing on a quarterly basis and results are reported to ALCO for decision making.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's profit or loss. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on the projected net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2021 and 31 December 2020.

Currency	Change in basis points	Sensitivity of net interest income	
		31 December 2021 MNT'000	31 December 2020 MNT'000
USD	+/-100	(10,572,605)/ 10,572,605	(10,581,157)/ 10,581,157
MNT	+/-100	(11,094,282)/ 11,094,282	(5,310,827)/ 5,310,827
OTHER	+/-100	(1,372,951)/ 1,372,951	(2,001,260)/ 2,001,260

Currency risk

Currency risk is the potential risk of loss that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Within the scope of the currency risk management, the Bank complies with prudential ratios in single and aggregate foreign currencies to align potential losses associated with the exchange rate fluctuations to risk bearing capability of the banks set by the Bank of Mongolia. In addition, the bank measures and manages its currency risk internally using Value-at-Risk methodology, which measures the potential amount that the Bank could lose from its open positions over the specific time frame for a given level of confidence. The VaR methodology employed by the Bank uses a one-day period, using 99% confidence level, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day, and are determined by observing market data movements over a 250-day period. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. In case there is a market instability, there is a high demand for accurate FX risk estimation. Therefore, during the reporting year the bank has completed several large scale developments for the FX risk management software, such as expanding the back testing method and models and improving risk management information system. The Bank uses these developments for its day to day operations and performs Value-at-Risk report, including the risk limit set by ALCO.

The ALCO also establishes trading limits in dealing with its counterparties and constantly monitors its performance. Moreover, the Bank has an FX risk contingency plan to take in case of unusual circumstances in the FX market that is based on currency risk stress testing performed on a quarterly basis, which results are reported to ALCO for decision making.

30. Risk management (cont'd.)**30.4 Market risk (cont'd.)****Currency risk (cont'd.)**

The table below summarises the Bank's exposure to foreign exchange risk as at 31 December 2021 and 31 December 2020. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currencies.

Financial assets and financial liabilities by currency as at 31 December 2021	MNT MNT'000	USD MNT'000	EUR MNT'000	CNY MNT'000	Others MNT'000	Total MNT'000
Assets						
Cash and cash equivalents	4,287,568,454	845,618,710	18,733,507	136,508,127	47,632,913	5,336,061,711
Derivative financial instruments	27,086,528	–	–	–	–	27,086,528
Loans and advances to customers at amortised cost	5,858,289,987	169,627,538	1,065,405	–	–	6,028,982,930
Loans and advances to customers at FVPL	560,315,869	–	–	–	–	560,315,869
Financial investments						
– Financial assets at FVPL	149,905,024	–	–	–	–	149,905,024
– Debt instruments at FVOCI	–	206,007,659	–	–	–	206,007,659
– Equity instruments at FVOCI	3,157,209	–	–	–	–	3,157,209
– Debt instruments at amortised cost	16,185,153	536,903,645	–	–	–	553,088,798
Other financial assets	1,931,997	479,571	9,153	–	–	2,420,721
	<u>10,904,440,221</u>	<u>1,758,637,123</u>	<u>19,808,065</u>	<u>136,508,127</u>	<u>47,632,913</u>	<u>12,867,026,449</u>
Liabilities						
Due to banks	3,623,659	23,910,749	1,495,180	1,941,155	4,883,537	35,854,280
Repurchase agreement	620,802,675	–	–	–	–	620,802,675
Due to customers	8,557,540,307	1,457,726,515	13,245,032	141,977,493	40,961,380	10,211,450,727
Derivative financial instruments liabilities	319,756	–	–	–	–	319,756
Borrowed funds	368,481,776	822,310,771	1,124,399	–	–	1,191,916,946
Other financial liabilities	94,074,975	5,803,596	–	167,678	–	100,046,249
Lease liability	11,085,695	–	–	–	–	11,085,695
	<u>9,655,928,843</u>	<u>2,309,751,631</u>	<u>15,864,611</u>	<u>144,086,326</u>	<u>45,844,917</u>	<u>12,171,476,328</u>
Derivatives	(544,844,995)	572,889,153	–	–	–	28,044,158

30. Risk management (cont'd.)**30.4 Market risk (cont'd.)****Currency risk (cont'd.)**

Financial assets and financial liabilities by currency as at 31 December 2020	MNT	USD	EUR	CNY	Others	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Assets						
Cash and cash equivalents	3,831,742,222	1,399,577,605	79,264,505	207,977,350	52,748,963	5,571,310,645
Due from banks	85,400,721	–	–	–	–	85,400,721
Derivative financial instruments	82,094,281	–	–	–	–	82,094,281
Loans and advances to customers at amortised cost	4,689,165,329	74,890,123	1,682,531	145,578	–	4,765,883,561
Loans and advances to customers at FVPL	159,599,674	–	–	–	–	159,599,674
Financial investments						
– Financial assets at FVPL	110,712,803	2,327,261	–	–	–	113,040,064
– Debt instruments at FVOCI	52,782,000	148,251,487	–	–	–	201,033,487
– Equity instruments at FVOCI	3,148,784	–	–	–	–	3,148,784
– Debt instruments at amortised cost	147,140,233	382,062,164	–	–	–	529,202,397
Other financial assets	2,176,117	19,076,598	–	–	–	21,252,715
	9,163,962,164	2,026,185,238	80,947,036	208,122,928	52,748,963	11,531,966,329
Liabilities						
Due to banks	13,137,611	5,717,591	717,425	1,032,116	5,220,306	25,825,049
Repurchase agreement	184,890,799	–	–	–	–	184,890,799
Due to customers	7,194,773,162	1,950,756,260	8,140,387	193,257,528	23,917,508	9,370,844,845
Derivative financial instruments liabilities	206,964	–	–	–	–	206,964
Borrowed funds	314,803,989	788,464,683	70,317,751	–	–	1,173,586,423
Other financial liabilities	72,381,658	24,705,616	7,250	20,554	–	97,115,078
Lease liability	7,960,407	–	–	–	–	7,960,407
	7,788,154,590	2,769,644,150	79,182,813	194,310,198	29,137,814	10,860,429,565
Derivatives	(669,070,970)	740,506,218	–	–	–	71,435,248

30. Risk management (cont'd.)**Operational risk**

The Bank defines operational risk as an event affecting objectives and strategy of the Bank, caused by inadequate or failed internal processes, people of the Bank, or by external events. Operational risk includes following sub-categories:

- Internal fraud
- External fraud
- Employment breaches and health safety
- Product and service error and deficiency
- Damage to physical assets
- Business disruption
- Performance error and deficiency

Operational risk does not include legal, compliance risk, information security or information technology risk and these are managed separately as risk categories.

All departments and branch units in the first line of defence assume the responsibility for the day-to-day management of their operational risks.

In the second line of defence, Operational risk department has responsibility for developing and maintaining an effective operational risk management framework and relevant approaches. Operational risk department also provides guidance and supports the first line of defence in identifying, assessing, and mitigating risks.

In addition, Operational risk department prepares monthly aggregated risk reports for review and decision by the Risk Committee of the Bank. The following sub-committees are operating at different levels of the Bank to manage and control operational risks in more depth:

- Operational Risk Sub-committee
- Card and Digital Banking Risk Sub-committee
- Branch Operational Risk Committee for each rural branch.

Internal audit, as the third line of defence, provides independent review regarding the first and second lines of defence activities.

Operational risk management is supported by the GRC system, which enables visibility and timely reporting of risk information. The primary operational risk methodologies include Risk and Control Self-Assessment (RCSA), Loss database, Key Risk Indicators (KRI), and risk issue remediation that also take advantage of the GRC system.

In 2021, the Bank developed a plan for the core business processes and sub-processes, and in accordance with the recommendations of the Operational Risk Department, the staff of department and units in cooperation with relevant stakeholders, organized an RCSA workshop to identify, assess and mitigate process risks. As a result of the workshop, all identified risks, controls, and objectives were recorded in a coherent manner in the GRC system. Issues and loss events are recorded immediately basis and analyzed in the context of relevant risks, controls, processes and products.

Legal and compliance risk

Compliance risk is defined as the imposition of high fines by the regulatory authorities, the loss of the Bank's reputation, the consequent termination of correspondent relations, and the loss of the bank's foreign payment and operations due to unfulfilled anti-money laundering and anti-terrorist financing laws, customer identification, sanctions control regulations, rules and regulations of the regulatory authorities, and the bank's internal code of ethics at the bank level. Legal risk is the risk of a bank failing to comply with rules, regulations, and standards approved by regulatory organizations; failing to make relevant amendments to its valid contracts when new laws are introduced or when existing laws are amended; or when a legal case arises from a claim.

The Bank's Board of Directors and Executive Management have approved Khan Bank's Anti-Money Laundering and Financial Crimes Policy, Compliance Internal Control Program, and other relevant policies and procedures for establish an effective compliance risk management system within the Bank, in particular to ensure compliance with anti-money laundering and anti-terrorist financing legislation at the bank level.

The Compliance Department monitors the implementation of the above-mentioned policies and procedures, prepares monthly reports and provides information to the Board of Directors and the Executive Management, and provides regular training and information to all bank employees and authorized officials.

Establishing an effective system of anti-money laundering and anti-terrorist financing at the bank level has become an essential part of building the bank's resilience and ability to provide continuous and reliable customer service in line with the growing demands and expectations of international financial sanctions authorities, investors and correspondent banks.

30. Risk management (cont'd.)**Legal and compliance risk (cont'd)**

Among the major actions taken in 2021 under the Compliance Internal Control Program are:

- The risk assessment of ML/TF at all levels of the Bank's operations was conducted using the international ACAMS methodology developed in accordance with financial sector standards, based on 40 FATF recommendations and the latest international regulatory environment and implementation methods. This risk assessment was conducted in 43 areas of high-risk customers, 53 types of products and services, and 3 geographical locations, and a detailed action plan to improve the bank was developed in accordance with the identified risks.
- "The Compliance and Ethics" campaign was implemented among all employees of the bank as part of the Bank's commitment to fostering a culture of compliance and provided planned and timely training and information on money laundering and financial crime prevention to the Bank's Board of Directors, Executive management and all employees.
- The successful introduction of an automated system for evaluating each customer's risk in the context of customer identification and operations has resulted in an effective system for monitoring high-risk customers.

In accordance with the Law on Combating Money Laundering and Terrorist Financing, we are gradually improving and implementing an automated system to increase the scope and control of effective transactions and sanctions control systems in accordance with the requirements of the regulatory authorities.

Information security risk

The Bank manages and maintains information security risks that have a potential effect on business and information technology at a low level. In order to systematically identify, analyse, evaluate, mitigate and report information security risks, the Bank follows best practices under ISO31000 (Risk management - Principles and Guidelines) and ISO27005 (Information Security Risk Management) standards.

The Bank has implemented an information security management system according to ISO27001:2013, the international standard for information security which emphasises the safeguarding of information assets and risk-based approach framework.

Information Security Risk Sub-committee regularly controls and discusses information security risks that may result potential damage in the event of loss of confidentiality, integrity and availability of information assets by using the vulnerability of the information asset in order to effectively manage information security risks.

In 2021, Information Security Department identified and assessed information security risks, which may occur within the scope of the activities, in 62 departments and units of Head Office, as well as branches and sub-branches in UB and Rural area. Identified risks are registered on risk dashboard of Information Security Risk Sub-Committee, and types of risk measures are selected, implemented and effectively managed.

The Bank conducted Information Security Risk Assessment remotely through checklist for third parties who cooperate under agreement. Within the framework of Information security risk assessment, third party agreement check is completed for 1449 third parties and detailed assessment was conducted in a consolidated manner based on the area of activity. The results are registered on the third party risk dashboard of Information Security Risk Subcommittee and the types of risk measures are selected and implemented.

Successfully completed regular internal audit in accordance with Requirements of International Standard for Information Security Management System & Payment Card Industry Data Security Standards and information security policies and procedures. The audit covered all departments and units of Head office, branches and units of UBRB and RURB.

Within the framework of the international audit of information security management system ISO27001: 2013 standard, certification audits have been conducted on departments and units of Head office, branches and units of UBRB and RURB and no major non-conformities have been observed.

International audit has been conducted within the framework of payment card industry data security standard PCI DSS v3.2.1 and successfully re-validated the Certificate that implements the standard controls.

Information technology risk management

To manage information technology risks effectively, the Bank has an Information Technology Risk Sub-committee and the risks associated with information technology systems and operations are identified and discussed at the subcommittee. In 2021, Information technology risk assessment is conducted in alignment with Bank's business strategies and objectives, and the IT risks identified as a result of this exercise are added at the sub-committee risk register. The risks related to information technology processes are managed and the processes are improved throughout the year.

30. Risk management (cont'd.)**Impact of Covid-19**

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

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

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

The Bank has considered central bank's interventions in their ECL model based on the available information. Further, Bank had adjusted their forward looking factor with the latest available data as of reporting date and for macroeconomic scenarios has considered severe scenarios when estimating.

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

31. Derivative financial instruments

The table below sets out the fair values, at the end of the reporting period, of currencies receivable or payable under the 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.

	Assets	Liabilities	Assets	Liabilities
	2021	2021	2020	2020
	MNT'000	MNT'000	MNT'000	MNT'000
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
– USD receivable on settlement (+)	512,971,599	30,073	682,799,086	36,201
– MNT payable on settlement (–)	(485,885,071)	(349,829)	(600,704,805)	(243,165)
Net fair value of foreign exchange forwards and swaps	27,086,528	(319,756)	82,094,281	(206,964)

32. Fair value disclosures**Determination of fair value and fair value hierarchy**

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

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

	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
At 31 December 2021				
Financial assets				
<i>Debt instruments measured at FVOCI:</i>				
Quoted bonds at fair value	206,007,659	–	–	206,007,659
<i>Equity instruments measured at FVOCI:</i>				
Quoted equities at fair value	3,157,209	–	–	3,157,209
<i>Financial assets at FVPL:</i>				
Loans and advances, at fair value	–	560,315,869	–	560,315,869
Senior RMBS, at fair value	–	–	36,536,559	36,536,559
Junior RMBS, at fair value	–	–	113,368,465	113,368,465
Derivative financial instruments	–	27,086,528	–	27,086,528
Non-financial assets				
Revalued properties	–	–	283,199,116	283,199,116
Total	209,164,868	587,402,397	433,104,140	1,229,671,405
Financial liability				
Derivative financial instruments	–	319,756	–	319,756
Total	–	319,756	–	319,756
Net	209,164,868	587,082,641	433,104,140	1,229,351,649
	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
At 31 December 2020				
Financial assets				
<i>Debt instruments measured at FVOCI:</i>				
Quoted bonds at fair value	158,916,354	–	–	158,916,354
Unquoted bonds at fair value	–	–	42,117,133	42,117,133
<i>Equity instruments measured at FVOCI:</i>				
Quoted equities at fair value	3,148,784	–	–	3,148,784
<i>Financial assets at FVPL:</i>				
Loans and advances, at fair value	–	159,599,674	–	159,599,674
Senior RMBS, at fair value	–	–	8,290,518	8,290,518
Junior RMBS, at fair value	–	–	102,422,285	102,422,285
Unquoted investments	–	–	2,327,261	2,327,261
Derivative financial instruments	–	82,094,281	–	82,094,281
Non-financial assets				
Revalued properties	–	–	273,610,643	273,610,643
Total	162,065,138	241,693,955	428,767,840	832,526,933
Financial liability				
Derivative financial instruments	–	206,964	–	206,964
Total	–	206,964	–	206,964
Net	162,065,138	241,486,991	428,767,840	832,319,969

32. Fair value disclosures (cont'd.)**Determination of fair value and fair value hierarchy (cont'd)****Transfers between level 1, 2 and 3**

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

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2021 and 2020:

MNT'000	2021 Fair value	2020 Fair value	Valuation technique	Inputs
Financial assets				
Derivative financial instruments	27,086,528	82,094,281	Interest rate parity analysis/ Modified discount curve	Repo rate, policy rate, 28week BoM bill rate, Z-spread, LIBOR rates, futures and swap rates, adjusted forward rate
Loans and advances to customers at FVPL	560,315,869	159,599,674	Market value approach	Market price
Financial liabilities				
Derivative financial instruments	319,756	206,964	Interest rate parity analysis/ Modified discount curve	Bloomberg prices, BoM exchange rates

The were no change in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2021 and 2020.

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

MNT'000	Fair value	Reasonable change	Sensitivity of the input to fair value	Valuation technique	Significant unobservable inputs	Range
31 December 2021						
Financial assets						
Senior RMBS, at fair value	36,536,559	1%	+/-365,366	Market value approach	Equivalent bond price/Market proxy	100
Junior RMBS, at fair value	113,368,465	1%	+/-1,133,685	Market value approach	Equivalent bond price/Market proxy	100
Non-financial assets						
Revalued properties	283,199,116	10%+/-	28,319,912	Depreciated replacement cost, market comparison	Market price per square metre with appropriate adjustments	2,118 – 11,732

32. Fair value disclosures (cont'd.)**Determination of fair value and fair value hierarchy (cont'd)****Fair value hierarchy**

MNT'000	Fair value	Reasonable change	Sensitivity of the input to fair value	Valuation technique	Significant unobservable inputs	Range
31 December 2020						
Financial assets						
Senior RMBS, at fair value	8,290,518	1%	+/-82,905	Market value approach	Equivalent bond price/Market proxy	100
Junior RMBS, at fair value	102,422,285	1%	+/-1,024,223	Market value approach	Equivalent bond price/Market proxy	100
Unquoted investments	2,327,261	10%	+/-232,726	Market value approach	Net asset value	n/a
Unquoted bonds at fair value	42,117,133	10%	+/-4,211,713	Market value approach	Equivalent bond price/Market proxy	747

Non-financial assets

Revalued properties	273,610,643	10%	+/-27,361,064	Depreciated replacement cost, market comparison	Market price per square metre with appropriate adjustments	1,928 – 10,678
---------------------	-------------	-----	---------------	---	--	----------------

There were no changes in valuation techniques during the year ended 31 December 2021 and 31 December 2020. Management believes that the fair value of financial assets is unlikely to be materially different from their carrying value as of 31 December 2021.

Movements in fair value measurements within Level 3 during the year are as follows:

	2021 MNT'000	2020 MNT'000
Senior RMBS, at fair value		
At 1 January	8,290,518	–
Addition	67,768,300	60,003,300
Disposal	(41,054,900)	(52,282,300)
Interest receivable	1,532,641	569,518
At 31 December	36,536,559	8,290,518
Junior RMBS, at fair value		
At 1 January	102,422,285	95,619,435
Addition	7,397,100	6,667,300
Interest receivable	10,948,750	10,413,617
Interest payables	(7,399,670)	(10,278,067)
At 31 December	113,368,465	102,422,285
Unquoted investments		
At 1 January	2,327,261	2,232,529
Addition	–	–
Fair value changes	(2,327,236)	–
FX difference recognised in profit or loss	(25)	94,732
At 31 December	–	2,327,261
Unquoted bonds, at fair value		
At 1 January	42,117,133	–
Addition	–	594,282,000
Repayment	(52,782,000)	(541,500,000)
Unamortised discount	10,664,867	(10,664,867)
At 31 December	–	42,117,133

32. Fair value disclosures (cont'd.)**Determination of fair value and fair value hierarchy (cont'd)****Movements in fair value measurements within Level 3 during the year (cont'd)**

	2021 MNT'000	2020 MNT'000
Revalued properties		
At 1 January	273,610,644	206,056,934
Addition	15,616,891	11,157,585
Gain on revaluation of premises (Note 20, 29)	–	64,792,320
Loss on revaluation recognised directly profit or loss (Note 10)	–	(2,582,396)
Depreciation charged in profit or loss	(5,530,909)	(5,652,226)
Disposal	(491,893)	(129,031)
Write-offs	(5,616)	(32,543)
At 31 December	283,199,116	273,610,643

Revaluation of properties

The fair value of the land and buildings were determined by using market value approach. This means that valuations performed by the valuer are based on the estimated selling price of similar buildings in the market. The properties' fair values are based on valuations performed by an accredited independent valuer.

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia. Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments in the financial statements where there is a difference between the two values.

	Carrying amount MNT'000	Fair value MNT'000
As at 31 December 2021		
Financial assets at amortised cost		
Loans and advances to customers	6,028,982,930	5,953,560,548
Debt instruments at amortised cost	553,088,798	554,306,700
Total	6,582,071,728	6,507,867,248
Financial liabilities at amortised cost		
Due to customers	10,211,450,727	10,245,689,117
Borrowed funds	1,191,916,946	1,191,998,551
Total	11,403,367,673	11,437,687,668
As at 31 December 2020		
Financial assets at amortised cost		
Loans and advances to customers	4,765,883,561	4,613,569,794
Debt instruments at amortised cost	529,202,397	545,027,605
Total	5,295,085,958	5,158,597,399
Financial liabilities at amortised cost		
Due to customers	9,370,844,845	9,416,209,005
Borrowed funds	1,173,586,423	1,174,616,711
Total	10,544,431,268	10,590,825,716

33. Related party disclosures**Transactions with key management personnel of the Bank**

The aggregate remuneration of directors and members of the Board of Directors during the year, paid by the Bank, was as follows:

	2021	2020
	MNT'000	MNT'000
<i>Short-term benefits:</i>		
Salaries and other allowances	6,386,103	5,858,811
Contribution to social and health fund	747,916	732,351
	7,134,019	6,591,162

Transactions with directors and key management

	2021	2020
	MNT'000	MNT'000
Loans and advances to key management	1,713,723	1,348,497
Deposits from key management	18,186,903	14,388,271
Irrevocable undrawn credit lines	210,632	103,453

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

The loans and advances to key management were secured, bore interest rates from 2.4% to 24% (2020: 2.4% to 24%) per annum and are repayable within 1 to 16 years. The interest income received from such loans during the financial year amounted to MNT 116,245 thousand (2020: MNT 113,221 thousand).

The deposits from the key management bore interest rates from 0.0% to 13.30% (2020: 0.0% to 13.60%) per annum. The interest expenses paid to the deposits from key management during the financial year amounted to MNT 632,889 thousand (2020: MNT 755,870 thousand).

Transactions with shareholders

The Bank enters into transactions with shareholders on an arm's length basis. As of 31 December 2021, balance due to shareholders was as follows:

	2021	2020
	MNT'000	MNT'000
Deposits	8,336,821	61,401,965
Borrowed funds	77,889,459	48,441,670
Loans and advances	–	5,725,000
Irrevocable undrawn credit lines	100	1,000
Approved limits	1,859,843	832,763
Guarantees issued	246,421	–
Receivable	86,632	86,632

The deposits bore interest rates from 0.0% to 1.8% per annum (2020: 0.0% to 5.4%). The interest expenses paid to the deposits during the financial period amounted to MNT 1,043,771 thousand (2020: MNT 2,608,292 thousand).

The borrowed funds bore interest rates from 3.14% to 4.65% per annum (2020: 3.28% to 4.80%). The interest expenses paid to such funds during the financial year amounted to MNT 2,845,669 thousand (2020: MNT 5,015,612 thousand).

The loans and advances bore interest rates from 7.00% to 12.60% per annum (2020: 14.40% to 15.00%). The interest income received during the financial year amounted to MNT 377,462 thousand (2020: MNT 94,068 thousand).

Other services received from the shareholders were mainly maintenance of vehicles and purchase of ATMs, the total expense incurred during the year end amounted to MNT 608,236 thousand (2020: MNT 604,720 thousand).

33. Related party disclosures (cont'd.)**Transactions with subsidiaries of shareholders**

	2021	2020
	MNT'000	MNT'000
Deposits	92,006,565	82,350,509
Loans and advances	3,616,616	41,858,313
Import letters of credit	3,173,171	4,269,288
Guarantees issued	352,461	63,272
Irrevocable undrawn credit lines	6,080	119,865

The loans and advances bore interest rates from 3.00% to 14.40% per annum (2020: 5.83% to 15.00%). The interest income received during the year amounted to MNT 2,138,641 thousand (2020: MNT 5,869,444 thousand).

The deposits bore interest rates from 0.0% to 8.30% per annum (2020: 0.0% to 6.00%). The interest expenses paid to the deposits during the year amounted to MNT 2,246,364 thousand (2020: MNT 3,442,569 thousand).

Other services received from other related parties included maintenance of ATMs and vehicles, the total service expense incurred during the year amounted to MNT 39,605,843 thousand (2020: MNT 33,036,291 thousand).

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. Outstanding balances except for loans and advances to related parties at the year-end are unsecured.

34. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 30 'Liquidity risk and funding management' for the Bank's contractual undiscounted repayment obligations for financial assets and liabilities.

At 31 December 2021	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial assets			
Cash and cash equivalents	5,336,061,711	–	5,336,061,711
Derivative financial instruments	19,919,948	7,166,580	27,086,528
Loans and advances to customers at amortised cost	3,015,158,422	3,013,824,508	6,028,982,930
Loans and advances to customers at FVPL	102,309,742	458,006,127	560,315,869
Investments			
– Financial assets at FVPL	7,005,324	142,899,700	149,905,024
– Debt instruments at FVOCI	21,203,404	184,804,255	206,007,659
– Equity instruments at FVOCI	3,157,209	–	3,157,209
– Debt instruments at AC	113,154,241	439,934,557	553,088,798
Other financial assets	2,420,721	–	2,420,721
	<u>8,620,390,722</u>	<u>4,246,635,727</u>	<u>12,867,026,449</u>
Non-financial assets			
Investments in associates	301,888	–	301,888
Other assets	75,674,109	–	75,674,109
Property and equipment	–	455,595,092	455,595,092
Intangible asset	–	54,764,803	54,764,803
Right of use assets	4,523,515	5,563,138	10,086,653
	<u>80,499,512</u>	<u>515,923,033</u>	<u>596,422,545</u>
Total	<u>8,700,890,234</u>	<u>4,762,558,760</u>	<u>13,463,448,994</u>
Financial liabilities			
Due to banks	35,854,280	–	35,854,280
Repurchase agreement	360,476,946	260,325,729	620,802,675
Due to customers	8,813,782,247	1,397,668,480	10,211,450,727
Derivative financial instruments	319,756	–	319,756
Borrowed funds	551,008,907	640,908,039	1,191,916,946
Other liabilities	100,046,249	–	100,046,249
Lease liability	4,319,937	6,765,758	11,085,695
	<u>9,865,808,322</u>	<u>2,305,668,006</u>	<u>12,171,476,328</u>
Non-financial liabilities			
Other liabilities	714,845	–	714,845
Income tax liabilities	2,167,852	–	2,167,852
Deferred tax liabilities	–	4,579,593	4,579,593
	<u>2,882,697</u>	<u>4,579,593</u>	<u>7,462,290</u>
Total	<u>9,868,691,019</u>	<u>2,310,247,599</u>	<u>12,178,938,618</u>
Net	<u>(1,167,800,788)</u>	<u>2,452,311,161</u>	<u>1,284,510,376</u>

34. Maturity analysis of assets and liabilities (cont'd.)

At 31 December 2020	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial assets			
Cash and cash equivalents	5,571,310,645	–	5,571,310,645
Due from banks	400,195	85,000,526	85,400,721
Derivative financial instruments	45,061,148	37,033,133	82,094,281
Loans and advances to customers at amortised cost	2,304,993,347	2,460,890,214	4,765,883,561
Loans and advances to customers at FVPL	12,716,054	146,883,620	159,599,674
Investments			
– Financial assets at FVPL	4,250,864	108,789,200	113,040,064
– Debt instruments at FVOCI	22,572,475	178,461,012	201,033,487
– Equity instruments at FVOCI	3,148,784	–	3,148,784
– Debt instruments at AC	210,597,576	318,604,821	529,202,397
Other financial assets	21,252,715	–	21,252,715
	<u>8,196,303,803</u>	<u>3,335,662,526</u>	<u>11,531,966,329</u>
Non-financial assets			
Investments in associates	301,888	–	301,888
Other assets	54,889,370	–	54,889,370
Property and equipment	–	465,928,170	465,928,170
Intangible asset	–	50,718,804	50,718,804
Right of use assets	6,980,541	382,224	7,362,765
	<u>62,171,799</u>	<u>517,029,198</u>	<u>579,200,997</u>
Total	<u>8,258,475,602</u>	<u>3,852,691,724</u>	<u>12,111,167,326</u>
Financial liabilities			
Due to banks	25,825,049	–	25,825,049
Repurchase agreement	79,867,182	105,023,617	184,890,799
Due to customers	8,091,011,100	1,279,833,745	9,370,844,845
Derivative financial instruments	206,964	–	206,964
Borrowed funds	668,497,871	505,088,552	1,173,586,423
Other liabilities	97,115,078	–	97,115,078
Lease liability	7,476,523	483,884	7,960,407
	<u>8,969,999,767</u>	<u>1,890,429,798</u>	<u>10,860,429,565</u>
Non-financial liabilities			
Other liabilities	7,904,208	–	7,904,208
Income tax liabilities	6,155,494	–	6,155,494
Deferred tax liabilities	–	7,467,039	7,467,039
	<u>14,059,702</u>	<u>7,467,039</u>	<u>21,526,741</u>
Total	<u>8,984,059,469</u>	<u>1,897,896,837</u>	<u>10,881,956,306</u>
Net	<u>(725,583,867)</u>	<u>1,954,794,887</u>	<u>1,229,211,020</u>

35. Capital adequacy

The adequacy of the Bank's capital is monitored using the rules and ratios established by BoM. During 2021 and 2020, the Bank complied in full with the capital requirements set by the regulatory body.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios to be able to absorb negative shocks.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

Regulatory capital

BoM requires commercial banks to maintain a minimum core capital adequacy ratio of 9% (2020: 9%) and risk weighted capital ratio of at least 12% (2020: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank as at 31 December were as follows:

	31 December 2021 MNT'000	31 December 2020 MNT'000
Core capital adequacy ratio	15.58%	18.09%
Risk-weighted capital ratio	15.58%	18.84%

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

	31 December 2021 MNT'000	31 December 2020 MNT'000
Ordinary shares	172,097,820	58,071,253
Treasury stock	–	(7,589,226)
Retained earnings	1,018,133,731	1,066,159,570
Total Tier I Capital	1,190,231,551	1,116,641,597

Tier II capital

Revaluation surplus*	–	46,319,202
Total Tier II Capital	–	46,319,202

Total capital /capital base	1,190,231,551	1,162,960,799
------------------------------------	----------------------	----------------------

*According to the amendment made to the Bank of Mongolia's capital adequacy requirement, revaluation surplus is not included as a component to Tier II capital starting from 1 January 2021.

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

	2021 Risk Assets MNT'000	2021 Weighted MNT'000	2020 Risk Assets MNT'000	2020 Weighted MNT'000
%				
0	5,699,052,958	–	5,920,766,489	–
20	353,888,144	70,777,629	343,228,743	68,645,749
50	1,588,975,923	794,487,961	1,221,900,118	610,950,059
90	–	–	637,021,694	573,319,525
100	6,487,214,096	6,487,214,096	4,566,305,705	4,566,305,705
125	–	–	4,824,294	6,030,368
150	99,357,894	149,036,841	124,070,542	186,105,813
Adjustments:				
Operational risk ratio	–	111,387,852	–	101,728,564
Foreign exchange risk ratio	–	25,725,385	–	58,858,211
Total	14,228,489,015	7,638,629,764	12,818,117,585	6,171,943,994

36. Events after the reporting date

On 6 January 2022, the Bank participated in monetisation transaction with wholly owned special purpose companies of Securities Financing Corporation LLC (“SFC”). The Bank sold MNT 95.9 billion of repo financed SME loans to SFC, for which the Bank received loan backed securities issued by SFC with interest rate of 9.5% p.a. The repo financed loans are sold with recourse of which Bank retained all the risks and rewards related to the loans sold to SFC. (Note 24).

On 28 January 2022, BoM approved the Bank’s request for change in the Bank’s shareholder structure in light of its Employees Share Purchase Plan (“ESPP”). As part of the ESPP, the Bank’s existing shareholder, HS international (Asia) Ltd., has sold portion of its shares in the Bank to eligible employees of the Bank. As approved by the BoM, the employees who participated in the ESPP are registered as shareholders of the Bank and the shareholder structure of the Bank has changed accordingly.

On 7 February 2022, the Bank has received financing of USD 20 million from Oesterreichische Entwicklungsbank AG according to the long-term borrowing agreement dated on 16 December 2021.

On 16 February 2022, the Bank has declared the dividend of MNT 200 billion to its shareholders in proportion to their ownership. The dividend declaration is subject to the approval of BoM, which has not been granted by the BoM as of the date of issuance of these financial statements.

Subsequent to the year end, a number of countries imposed sanctions against a substantial number of Russian government and government related entities, in relation to circumstances in Ukraine and Russia. The sanctions included a partial ban on SWIFT transactions, as well as financial and economic restrictions. As of 31 December 2021, the Bank had current accounts held with a number of Russian banks and financial institutions irrespective of whether presently sanctioned amounting to MNT 41.9 billion. Management is actively monitoring and assessing the potential sanctions impact as well as credit risk exposure on these accounts of which the outstanding balances have been reduced to MNT 16.3 billion as of the date of issuance of these financial statements.

COVID-19 impact

The Bank considered the impact of changes to the Covid-19 lockdown restrictions post 31 December 2021 and concluded that the significant accounting judgements, estimates and assumptions applied in the preparation of these annual financial statements remains appropriate. Refer to Note 2 for significant accounting judgements, estimates and assumptions applied. As of our reporting date, the Covid-19 lockdowns are stopped by the Government and the Bank is operating normally.

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

37. Mongolian translation

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