XACBANK LLC
(Incorporated in Mongolia)

Audited Financial Statements
31 December 2021

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XACBANK LLC

Financial statements for the year ended 31 December 2021

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REGISTERED ADDRESS:	XacBank Building Prime Minister Amar's Street, Sukhbaatar District, Khoroo 8 Post Branch # 46, P.O Box 721, Ulaanbaatar 14200 Mongolia
BOARD OF DIRECTORS:	Mr. Sanjay Gupta Mr. Tsevegjav Gumenjav Ms. Tselmuun Nyamtaishir Mr. Andrzej Witak Mr. Michael Madden Mr. Ulambayar Bayansan Mr. Albertus Bruggink Mr. Niraj Vedwa Mr. Yves Jacquot Mr. Maurice Lam (resigned as of 4 Feb 2022) Ms. Melissa Moy Tian (resigned as of 31 Dec 2021)
CORPORATE SECRETARY:	Ms. Ashidmaa Dashnyam
AUDITORS	Ernst & Young Mongolia Audit LLC Certified Public Accountants

XACBANK LLC

Statement by executives

We, Tsevegjav Gumenjav being Chief Executive Officer of XacBank LLC (the "Bank") and Erdenebayar Ganzorig being Chief Financial Officer primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 7 to 90 give a true and fair view of 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.

TSEVEGJAV GUMENJAV
(Chief Executive Officer)

ERDENEBAYAR GANZORIG
(Chief Financial Officer)

Ulaanbaatar, Mongolia
Date: 25 March 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of XacBank LLC

Opinion

We have audited the financial statements of XacBank 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 ("IFRS"s) as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). 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.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of XacBank 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

The financial statements of the Bank for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 31 March 2021.

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.

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by

Mandakhbayar Dorjbat
Director

Approved by

Adrian Chu

Adrian Chu
Partner

Ulaanbaatar, Mongolia
Date: 25 March 2022

GLOSSARY OF ABBREVIATION

AC	Amortised cost
ABS	Asset Backed Securities
BoM	Bank of Mongolia
ECL	Expected credit loss
EIR	Effective interest rate
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GoM	Government of Mongolia
GDP	Gross domestic product
IFRS	International Financial Reporting Standards
IFRS 7	IFRS 7 Financial Instruments: Disclosures
IFRS 9	IFRS 9 Financial Instruments
IFRS 13	IFRS 13 Fair Value Measurement
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
LGD	Loss given default
LIBOR	London Interbank Offered Rate
OCI	Other comprehensive income
PD	Probability of default
RMBS	Residential Mortgage Backed Securities
SFC	Security Finance Corporation LLC
SPPI	Solely payments of principal and interest on the principal amount outstanding
VaR	Value at Risk

XACBANK LLC

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2021

	Notes	2021 MNT'000	2020 Restated* MNT'000
Interest and similar income	**4**	332,086,338	381,757,320
Interest and similar expense	**4**	(174,330,045)	(262,486,698)
Net interest income		**157,756,293**	**119,270,622**
Fees and commission income	**5**	26,944,135	23,288,862
Fees and commission expenses	**5**	(8,019,386)	(6,389,820)
Net fees and commission income	**5**	**18,924,749**	**16,899,042**
Net trading income	**6**	6,194,516	2,053,595
Net income from other financial instruments at FVTPL	**7**	3,601,665	3,255,082
Net other operating income/(expenses)	**8**	(374,161)	(8,661,562)
Total operating income		**186,103,062**	**132,816,779**
Net credit loss expense	**9**	(4,571,200)	(19,925,538)
Net operating income		**181,531,862**	**112,891,241**
Operating expenses	**10**	(80,470,954)	(70,279,670)
Amortisation of deferred grants	**23**	1,407,264	1,174,729
Profit before tax		**102,468,172**	**43,786,300**
Income tax expense	**11.1**	(27,205,297)	(10,101,675)
Profit for the year		**75,262,875**	**33,684,625**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Movement in investment revaluation reserve, net of tax		2,653	169,431
Gain on revaluation of premises		2,997,142	-
Other comprehensive income for the year, net of tax		**2,999,795**	**169,431**
Total comprehensive income for the year		**78,262,670**	**33,854,056**
Earnings per share (MNT):			
Basic earnings per share	**12**	75.26	33.68
Diluted earnings per share	**12**	75.26	33.68

* Comparatives have been restated as a result of the merger during the year, please refer to note 2.5 for details.

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

XACBANK LLC

Statement of financial position

As at 31 December 2021

	Notes	2021 MNT'000	31 December 2020 Restated* MNT'000	1 January 2020 Restated* MNT'000
ASSETS				
Cash and balances with BoM	**13.1**	248,313,381	179,504,648	571,202,452
Mandatory cash balances with BoM	**13.2**	214,231,304	186,372,668	213,044,263
Financial instruments at FVTPL				
Derivative financial instruments	**14.2**	49,223,110	75,684,020	99,390,188
Securities	**14.1**	76,288,953	42,356,444	34,916,469
Loans and advances to customers	**14.1**	90,000,608	62,983,322	69,873,744
Financial assets at FVTOCI				
Equity instruments	**15**	3,613,197	3,609,660	3,383,754
Financial assets at amortised cost				
Due from banks	**16.1**	42,487,278	82,528,044	122,475,712
Debt instruments	**16.2**	926,714,515	1,207,367,188	467,741,147
Loans and advances to customers	**16.3**	1,701,557,761	1,364,714,782	1,824,598,102
Other assets	**17**	60,592,954	58,197,748	55,193,096
Properties held for sale	**18**	133,594	3,033,923	4,705,877
Property, equipment and right-of-use assets	**19**	67,214,011	63,559,418	68,574,045
Intangible assets	**20**	15,452,521	14,706,533	12,085,606
Investment property	**21**	-	21,260,252	31,919,060
Deferred tax assets	**11.2**	4,135,441	3,534,627	2,105,695
TOTAL ASSETS		**3,499,958,628**	**3,369,413,277**	**3,581,209,210**
LIABILITIES AND EQUITY				
LIABILITIES				
Financial instruments at FVTPL				
Derivative financial instruments	**14.2**	371,050	-	-
Financial liabilities at amortised cost				
Repurchase agreements		-	-	297,898,939
Due to banks	**22.1**	2,691,406	1,938,909	12,229,311
Due to customers	**22.2**	2,252,099,731	2,025,470,938	1,843,143,656
Borrowed funds	**22.3**	768,775,737	937,585,863	1,012,101,730
Debt securities issued	**22.4**	8,403,663	10,618,643	3,226,701
Subordinated loans		-	-	54,415,887
Deferred grants	**23**	9,243,242	10,318,966	8,047,821
Lease liabilities	**24**	5,422,527	3,176,591	4,942,594
Other liabilities	**25**	64,250,454	58,300,003	63,357,321
Income tax payable		4,705,974	8,771,190	467,132
TOTAL LIABILITIES		**3,115,963,784**	**3,056,181,103**	**3,299,831,092**
EQUITY				
Ordinary shares	**26**	100,000,000	58,625,979	58,625,979
Share premium		1,817,773	1,817,773	1,817,773
Reserves	**27**	84,602,413	57,851,872	46,561,682
Retained earnings		197,574,658	194,936,550	174,372,684
TOTAL EQUITY		**383,994,844**	**313,232,174**	**281,378,118**
TOTAL LIABILITIES AND EQUITY		**3,499,958,628**	**3,369,413,277**	**3,581,209,210**

* Comparatives have been restated as a result of the merger during the year, please refer to note 2.5 for details.

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

XACBANK LLC

Statement of changes in equity

For the year ended 31 December 2021

	Ordinary shares MNT'000 (Note 26)	Share premium MNT'000	Reserves MNT'000 (Note 27)	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2021 (Restated)*	**58,625,979**	**1,817,773**	**57,851,872**	**194,936,550**	**313,232,174**
Profit for the year	-	-	-	75,262,875	75,262,875
Other comprehensive income	-	-	2,999,795	-	2,999,795
Total comprehensive income	**-**	**-**	**2,999,795**	**75,262,875**	**78,262,670**
Cash dividends	-	-	-	(7,500,000)	(7,500,000)
Issue of share capital through stock dividend	41,374,021	-	-	(41,374,021)	-
Transfer to/(from) regulatory reserve	-	-	23,750,746	(23,750,746)	-
At 31 December 2021	**100,000,000**	**1,817,773**	**84,602,413**	**197,574,658**	**383,994,844**
At 1 January 2020 (Restated)*	**58,625,979**	**1,817,773**	**46,561,682**	**174,372,684**	**281,378,118**
Profit for the year	-	-	-	33,684,625	33,684,625
Other comprehensive income	-	-	169,431	-	169,431
Total comprehensive income	**-**	**-**	**169,431**	**33,684,625**	**33,854,056**
Realised revaluation reserve	**-**	-	(93,078)	93,078	-
Dividend paid	-	-	-	(2,000,000)	(2,000,000)
Transfer to/(from) regulatory reserve	-	-	11,213,837	(11,213,837)	-
At 31 December 2020 (Restated)*	**58,625,979**	**1,817,773**	**57,851,872**	**194,936,550**	**313,232,174**

* Comparatives have been restated as a result of the merger during the year, please refer to note 2.5 for details.

Reserves include the regulatory reserve that is set up in compliance with BoM requirements and is distributable to Shareholders of the Bank subject to BoM's approval (Note 27).

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

XACBANK LLC

Statement of cash flows

For the year ended 31 December 2021

	Notes	2021 MNT'000	2020 Restated* MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		102,468,172	43,786,300
Adjustments for:			
Gain on disposal of property and equipment	**8**	(4,862)	(54,250)
Loss on disposal of foreclosed properties	**8**	1,125,540	308,818
(Gain)/Loss on disposal of property held for sale	**8, 18**	(155,981)	268,824
Gain on disposal of investment property	**8**	-	(2,080)
Loss on disposal of loans and advances to customers	**8**	-	223,798
Loss on disposal of financial asset measured at FVTPL	**7**	156,913	-
Unrealised foreign exchange gain	**8**	(21,922,069)	(15,274,776)
Changes in fair value of financial derivatives	**8**	26,831,960	23,706,169
Net credit loss expense	**9**	2,815,312	17,781,593
Modification loss from financial assets at AC	**9**	3,118,563	2,143,945
Modification gain from borrowed funds	**9**	(1,362,675)	-
Fair value changes in financial assets measured at FVTPL	**6, 7**	370,512	616,001
Depreciation of property and equipment	**10**	6,339,870	6,784,432
Depreciation of right-of-use assets	**10**	3,711,714	3,785,606
Amortisation of intangible assets	**10**	2,910,587	2,671,612
Property and equipment written off	**10**	80,098	59,044
Intangible asset written off	**10**	-	46,400
Revaluation deficit on premises	**10**	868,801	-
Reversal of impairment loss on foreclosed properties	**8**	(3,026,616)	(2,447,205)
(Reversal)/impairment loss on properties held for sale	**8**	(116,699)	92,329
Fair value loss on investment property	**8**	-	3,085,935
Amortisation of deferred grants	**23**	(1,407,264)	(1,174,729)
Interest income from financial assets measured at AC	**4**	(332,086,338)	(381,757,320)
Interest income from financial assets measured at FVTPL	**6, 7**	(4,709,160)	(4,162,458)
Interest expense	**4**	174,330,045	262,486,698
Interest received		264,386,797	294,517,320
Interest paid		(130,131,418)	(181,344,830)
Operating cash flows before operating assets and liabilities		**94,591,802**	**76,147,176**
Changes in operating assets:			
Statutory deposits with BoM		(27,858,636)	26,671,595
Loans and advances to customers		(421,808,737)	403,284,988
Derivative financial instruments		21,973,538	59,804,426
Other assets		7,729,405	1,127,162
Changes in operating liabilities:			
Due to banks		750,192	(10,287,521)
Repurchase agreements		-	(297,901,361)
Due to customers		229,145,729	161,584,740
Other liabilities		(2,361,464)	(4,934,346)
Cash generated from/(used in) operations		**(97,838,171)**	**415,496,859**
Income tax paid		(31,872,211)	(3,283,025)
Net cash flows generated from/(used in) operating activities		**(129,710,382)**	**412,213,834**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on debt instruments		73,511,422	95,574,657
Purchase of debt instruments at AC		(17,620,921)	(20,274,921)
Proceeds from financial investments at FVTPL		1,152,004	87,600
Proceeds from disposal of debt instruments at AC		1,483,100	5,078,500
Proceeds from disposal of property and equipment		10,027	372,748
Acquisition of property and equipment		(5,380,980)	(2,731,736)
Acquisition of intangible assets	**20**	(3,656,575)	(5,338,939)
Proceeds from disposal of properties held for sale	**18**	3,085,797	4,191,979
Proceeds from disposal of investment properties		-	96,080
Proceeds from disposal of foreclosed properties		19,410,445	3,938,684
Net cash flows generated from investing activities		**71,994,319**	**80,994,652**

	Notes	2021 MNT'000	2020 Restated* MNT'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on borrowed funds		(42,300,337)	(82,647,701)
Interest paid on debt securities		(703,340)	(516,206)
Drawdown of borrowed funds		172,827,206	423,990,889
Drawdown of debt securities		-	10,240,789
Repayment of borrowed funds		(334,803,370)	(506,050,141)
Repayment of subordinated loans		-	(56,985,800)
Repayment of debt securities		(2,000,000)	(3,358,381)
Dividends paid		(7,500,000)	(2,000,000)
Deferred grants received	**23**	331,540	3,445,874
Payment of lease obligation		(3,703,188)	(5,318,547)
Net cash flows used in financing activities		**(217,851,489)**	**(219,199,224)**
Effect of exchange rate changes on cash and cash equivalents		**(1,285,402)**	**19,065,845**
Net increase/(decrease) in cash and cash equivalents		**(276,852,954)**	**293,075,107**
Cash and cash equivalents brought forward		**1,449,206,880**	**1,156,131,773**
Cash and cash equivalents carried forward	**13.3**	**1,172,353,926**	**1,449,206,880**

Reconciliation of changes in liabilities arising from financing activities:

Lease liabilities	2021 MNT'000	2020 Restated* MNT'000
At 1 January	3,176,591	4,942,594
Non-cash additions	5,393,450	3,898,174
Termination of lease	-	(667,083)
Interest expense during the year	555,674	321,453
Principal portion of lease liabilities paid	(3,703,188)	(5,318,547)
At 31 December	**5,422,527**	**3,176,591**

	Borrowed funds MNT'000	Debt securities issued MNT'000	Sub-ordinated loans MNT'000
At 1 January 2021 (Restated)	**937,585,863**	**10,618,643**	-
New disbursement	172,827,206	-	-
Repayment	(334,803,370)	(2,000,000)	-
Interest repayment	(42,300,337)	(703,340)	-
Non-cash repayments to BoM and GoM by transferring Senior RMBS	(9,500,800)	-	-
Foreign exchange movement	(163,970)	(2,061)	-
Interest expense accrued	46,493,820	490,421	-
Modification gain	(1,362,675)	-	-
At 31 December 2021	**768,775,737**	**8,403,663**	**-**
At 1 January 2020 (Restated)	1,012,101,730	3,226,701	54,415,887
New disbursement	423,990,889	10,240,789	-
Repayment	(506,050,141)	(3,358,381)	(56,985,800)
Interest repayment	(82,647,701)	(516,206)	-
Non-cash repayments to BoM and GoM by transferring Senior RMBS	(30,742,000)	-	(5,204,590)
Foreign exchange movement	41,759,304	299,069	2,315,400
Interest expense accrued	79,173,782	726,671	5,459,103
At 31 December 2020 (Restated)	**937,585,863**	**10,618,643**	**-**

* Comparatives have been restated as a result of the merger during the year, please refer to note 2.5 for details.

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

1. Corporate information

XacBank LLC is principally engaged in the business of providing banking and financial services pursuant to License No. 24 issued by the Bank of Mongolia ("BoM"). There have been no significant changes in the nature of the Bank's activities during the year other than the merger with XacLeasing LLC as detailed below.

The Bank is a limited liability company, incorporated and domiciled in Mongolia. The Bank's registered address is at XacBank Building, Prime Minister Amar's Street, Sukhbaatar District, Khoroo 8, Ulaanbaatar, Mongolia and the principal place of business is at 16/F, International Commerce Center Tower, Jamiyan Gun Street 9, Ulaanbaatar 14210, Mongolia.

On 13 November 2021, the Bank and a fellow subsidiary XacLeasing LLC, were officially merged under BoM permission №A-1/1024 dated 15 October 2021 under the Company law. The merger was governed by a Merger Agreement between the Bank and Xac Leasing of which all assets, liabilities and reserves of Xac Leasing were to be merged into the Bank, taking effect from 13 November 2021 (the "Merger") (See Note 2.5).

The holding company of the Bank is TenGer Financial Group LLC, which is incorporated in Mongolia. The shareholders of the holding company are:

- Mongolyn Alt Corporation LLC
- International Finance Corporation (IFC)
- ORIX Corporation
- European Bank for Reconstruction and Development
- National Bank of Canada
- Ronoc Partners Kft.
- Mongolia Financial Services
- Triodos Fair Share Fund
- Open Society Forum
- UB Rotary Club
- Boldoo Magvan
- Ganbold Chuluun

The financial statements of the Bank were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 24 March 2022.

2. Accounting policies

2.1 Basis of preparation

The financial statements of the Bank have been prepared on a historical cost basis, except for derivative financial instruments, investment properties, debt and equity instruments at fair value through OCI, financial assets at FVTPL which have been measured at fair value and and properties held for sale which are measured lower of carrying value and fair value less costs to sell. The financial statements are presented in Mongolian Togrog, which is denoted by the symbol MNT, and all values are rounded to the nearest thousands, except when otherwise indicated.

The Bank has merged with its fellow subsidiary, XacLeasing LLC as of 13 November 2021 as per the shareholders' resolution of the holding company. The Bank and XacLeasing LLC had common shareholder and hence the management has accounted for the Merger as business combination under common control as of 13 November 2021, i.e. scoped out of IFRS 3 *Business combinations* and applied pooling of interest method accounting retrospectively. As the management elected an accounting policy whereby it restated the prior periods financial statements, financial statements were prepared as if the merger had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the Merger. Both the Bank's and XacLeasing LLC's financial statements were prepared using uniform accounting policies and applied consistently. For details please refer to note 2.5.

Statement of compliance

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

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 statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 30.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.2 Significant accounting judgments, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

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.

2.2 Significant accounting judgments, estimates and assumptions (Contd.)

Measurement of ECL

The measurement of ECL involves significant management estimates and judgement in the following key areas:

- Significant increase of credit risk: ECL is measured as an allowance equal to 12-months ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.
- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.
  Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Forward looking information: In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:
  - GDP
  - Unemployment rate
  - S&P 500

  When incorporating forward looking information, the Bank considers three scenarios (a base case, an upside and downside). 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.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on 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 where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions.

Whilst the Bank considers these valuations are the best estimates at present, the uncertainy casued by the Covid-19 pandemic has resulted in greater market volatility, leading to higher degree of uncertainty in respect of the valuations in the current year. Persistent uncertainty or sudden deteroriation in the market environment may cause further disruptions or volatility, as such significant changes in the underlying assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See note 28 for further disclosures.

Valuation of premises

The determination of the fair value requires judgement regarding the selection of appropriate valuation techniques and assumptions. Any material change in the assumptions and valuation to techniques will have an impact on the revaluation reserve for premises. In 2021, all premises have been valued by a qualified independent valuation companies.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs)

New standards and amendments to IFRSs that are mandatorily effective for the current year

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 for annual period beginning on or after 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.

Effective for annual periods beginning on or after	New Standards or Amendments
1 January 2021	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2* Amendments to IFRS 16 *Covid-19 Related Rent Concessions beyond 30 June 2021*

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.

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.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs) (Contd.)

New standards and amendments to IFRSs that have been issued but are 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.

Effective for annual periods beginning or after	New Standards or Amendments
1 January 2022	Amendments to IFRS 3 *Reference to the Conceptual Framework* Amendments to IAS 16 *Property, Plant and Equipment: Proceeds before Intended Use* Amendments to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract* IFRS 1 First-time adoption of International Financial Reporting Standards *Subsidiary as a first-time adopter* IFRS 9 Financial Instruments *Fees in the '10 per cent' test for derecognition of financial liabilities* IAS 41 Agriculture *Taxation in fair value measurements*
1 January 2023	IFRS 17 *Insurance Contracts* Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* Amendments to IAS 8 *Definition of Accounting Estimates* Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*
To be determined	Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs) (Contd.)

New standards and amendments to IFRSs that have been issued but are not yet effective (Contd.)

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

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation*.

The application of the amendments does not have any impact on the Bank's financial statements.

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.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs) (Contd.)

New standards and amendments to IFRSs that have been issued but are not yet effective (Contd.)

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.

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 on their accounting policy disclosures.

2.4 Summary of significant accounting policies

Foreign currency translation

The financial statements of the Bank are presented in Mongolian Togrogs (MNT), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non–trading activities are taken to 'Net other operating (loss)/income' in the statement of comprehensive income. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss for the period except for the exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

2.4 Summary of significant accounting policies (Contd.)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest and similar income' and 'Interest and similar expense' respectively using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, under 'Net trading loss' and 'Net income from other financial instruments at FVTPL'. Interest income or expense on financial instruments that are measured at amortised cost and fair value through other comprehensive income is determined using the effective interest rate method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net amortised cost or gross carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

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

(ii) Net fees and commission income

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

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

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include custody service fees.

Fee income from providing transaction services

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

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.

2.4 Summary of significant accounting policies (Contd.)

Recognition of income and expenses (Contd.)

(ii) Net fees and commission income (Contd.)

Fee income forming an integral part of the corresponding financial instrument

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

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

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

(iii) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held-for-trading'.

(iv) Net income from other financial instruments at FVTPL

Net income from other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL.

The fair value movement on derivatives held for economic hedging where hedge accounting is not applied are presented in ‘Net income from other financial instruments at FVTPL’.

Financial instruments – initial recognition and subsequent measurement

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

(i) Date of recognition

All financial assets and liabilities 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.

(ii) Financial assets- Classification and measurement

The classification of financial assets is determined by the contractual cash flows test referred to as “solely payment of principal and interest” (SPPI) and a business model test.

Financial assets that fail the SPPI test is measured at FVTPL.

For assets passing the SPPI test, a business model test assesses the objective of holding the asset.

The business model test for financial assets is summarised below:

Financial assets are measured at amortised cost if they are held within a business model where the objective is to hold financial assets in order to collect contractual cash flows (“hold to collect” business model).

2.4 Summary of significant accounting policies (Contd.)

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

(ii) Financial assets- Classification and measurement (Contd.)

Financial assets are measured at FVTOCI if they are held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell" business model).

Financial assets are measured at FVTPL if they do not meet the business model criteria of either "hold to collect" or "hold to collect and sell".

(iii) Financial assets measured at amortised cost

On initial recognition, financial assets are recognised at their fair value, including transaction costs directly attributable to the transaction as well as commissions related to the origination of the loans.
They are subsequently measured at amortised cost, including accrued interest and net of repayments of principal and interest during the past period. These financial assets are also subject from initial recognition, to the measurement of ECL allowance.

Interest is calculated using the effective interest method determined at inception of the contract.

This category includes, in particular, cash and balances with BoM, loans and advances to customers, due from banks, repurchase agreements and debt instruments issued by the Government of Mongolia (GoM) and BoM.

(iv) Financial assets measured at FVTOCI

Debt instruments

Debt instruments are classified at FVTOCI if the following two criteria are met:

- Business model criterion: Financial assets are held in a business model whose objective is achieved by both holding the financial assets in order to collect contractual cash flows and selling the financial assets ("collect and sale"). The latter is not incidental but is an integral part of the business model.

- Cash flow criterion: The principles are identical to those applicable to financial assets at amortised cost.

On initial recognition, financial assets are recognised at their fair value, including transaction costs directly attributable to the transaction. They are subsequently measured at fair value and changes in fair value are recognised in other comprehensive income. These financial assets are also subject to the measurement of an ECL allowance on the same approach as for debt instruments at amortised cost. On disposal, changes in fair value previously recognised in other comprehensive income are reclassified to profit or loss.
In addition, interest is recognised in the income statement using the effective interest method determined at the inception of the contract.

Equity instruments

All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the entity has elected to present value changes in other comprehensive income. There is no cost exception for unquoted equities. On disposal of the equity instruments, changes in fair value previously recognised in other comprehensive income are not recognised in profit or loss. Only dividends, if they represent remuneration for the investment and not repayment of capital, are recognised in profit or loss. These instruments are not subject to impairment.

The Bank has elected to present value changes of equity investments in other comprehensive income.

(v) Financial assets measured at FVTPL

A financial instrument may be designated as at FVTPL only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both, that the Bank manages and evaluates on a fair value basis; or (c) relates to a financial liability that contains an embedded derivative which is not evidently closely related to the host contract.

2.4 Summary of significant accounting policies (Contd.)

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

(v) Financial assets measured at FVTPL (Contd.)

This category includes derivative financial instruments,investments in residential mortgage backed securities ("RMBS") and Junior asset backed securities ("ABS”) and loans and advances to customers to be sold to wholly owned subsidiaries of MIK Holding JSC (“MIK”).

(vi) Borrowed funds,subordinated loans and debt securities issued

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

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

An analysis of the Bank's borrowed funds and debt securities issued are disclosed in Notes 22.3 and 22.4, respectively.

(vii) 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 (Note 22.1).

After initial measurement, borrowings are subsequently measured at amortised cost using the EIR.

(viii) Due to customers

This includes current, savings and time deposits from customers (Note 22.2).

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

(ix) Financial guarantees, letters of credit and undrawn loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially recognised in the financial statements at their fair values, being the premium received. If not designated as at FVTPL and not arising from a transfer of a financial asset, financial guarantees are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank’s revenue recognition policies.

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

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position (within ‘other liabilities’) and the remeasurement is presented in profit or loss as Net credit loss expense.

The Bank has not designated any financial guarantee contracts as at FVTPL.

(x) Commitments to provide a loan at a below-market interest rate

Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank’s revenue recognition policies.

2.4 Summary of significant accounting policies (Contd.)

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

(x) Commitments to provide a loan at a below-market interest rate (Contd.)

Commitments to provide a loan below market rate not designated at FVTPL are presented as provisions in the statement of financial position (within 'other liabilities') and the remeasurement is presented in profit or loss as Net credit loss expense.

The Bank has not designated any commitments to provide a loan below market rate at FVTPL.

Impairment of financial assets measured at amortised cost

The impairment model for credit risk is based on expected losses. This model applies to loans and debt instruments measured at amortised cost, to loan commitments and financial guarantee contracts that are not recognised at fair value, as well as to trade receivables. No impairment loss is recognised on equity investments.

General model

The Bank identifies three 'stages' that correspond each to a specific status with regards to the evolution of counterparty credit risk since the initial recognition of the asset.

- 12-months ECL ('stage 1'): If at the reporting date, the credit risk of the financial instrument has not increased significantly since its initial recognition, this instrument is impaired at an amount equal to 12-months ECL (resulting from the risk of default within the next 12 months).
- Lifetime ECL for non-impaired assets ('stage 2'): The loss allowance is measured at an amount equal to the lifetime ECL if the credit risk of the financial instrument has increased significantly since initial recognition, but the financial asset is not credit impaired.
- Lifetime ECL for credit-impaired financial assets ('stage 3'): when an asset is "credit-impaired", the loss allowance is also measured at an amount equal to the lifetime ECL.

This general model is applied to all instruments within the scope of IFRS 9 impairment, except for purchased or originated credit-impaired financial assets and instruments for which a simplified model is used (see below).

The IFRS 9 expected credit loss approach is symmetrical, i.e. if lifetime ECL have been recognised in a previous reporting period, and if it is assessed in the current reporting period that there is no longer any significant increase in credit risk since initial recognition, the loss allowance reverts to a 12-months ECL.

Regarding interest income, under 'stage' 1 and 2, it is calculated on the gross carrying amount. Under 'stage' 3, interest income is calculated on the amortised cost (i.e. the gross carrying amount adjusted for the ECL allowance).

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators.

Significant increase in credit risk

The Bank monitors all financial assets, that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-months ECL.
The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, that are subject to impairment for significant increase in credit risk.

2.4 Summary of significant accounting policies (Contd.)

Impairment of financial assets measured at amortised cost (Contd.)

Significant increase in credit risk (Contd.)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

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 32.2.

Write-off

Loans and debt instruments are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event.

However, a write-off in accounting terms does not imply debt forgiveness in the legal sense as recovery actions on cash due by the counterparty are pursued particularly if the latter's fortune improve. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities are recognized as impairment gains upon receipt.

2.4 Summary of significant accounting policies (Contd.)

Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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

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

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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 the statement of comprehensive income.

Derivative financial instruments

The Bank enters into derivative financial instruments which are are held to manage its exposure to foreign exchange rate risk. Derivative held include foreign exchange forward contracts and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 14.2.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognised in profit or loss. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28.

2.4 Summary of significant accounting policies (Contd.)

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

Modification of financial assets/financial 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.

Cash and cash equivalents

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

Property and equipment

Premises comprising of land and buidings held for use for providing services or for administrative purpose are stated in the financial position at fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses. All other items of property and equipment are stated at cost less less subsequent accumulated depreciation and subsequent accumulated impairment losses (if any).

Properties in the course of construction for providing services or for administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising from revaluation of property is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

2.4 Summary of significant accounting policies (Contd.)

Property and equipment (Contd.)

A decrease in net carrying amount arising on revaluation of property and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is recognised so as to write off the cost or revalued amount of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

Depreciation of property and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Buildings	40 years
Office furniture	10 years
Computer equipment and others	3 - 10 years
Vehicles	10 years
Leasehold improvements	Lower of lease term or useful lives

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in statement of comprehensive income.

Intangible assets

The Bank's other intangible assets include the value of computer software and licenses, software under development and patents and rights.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.
Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software	1 - 10 years
Patents and rights	1 - 10 years

Investment properties

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

Investment properties are initially measured at cost, including transaction costs. Investment properties are subsequently measured at fair value. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Gains or losses arising from changes in the fair value of investment properties are recognised in the profit or loss account in the year they arise.

2.4 Summary of significant accounting policies (Contd.)

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to leases of branches that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Bank; and
- an estimate of costs to be incurred by the Bank in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Bank is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Bank obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property and equipment.

Right-of-use assets are presented within line item of property and equipment on the statement of financial position.

The Bank presents right-of-use assets that do not meet the definition of investment property or inventory in "property and equipment", the same line item within which the corresponding underlying assets would be presented if they were owned. Right-of-use assets that meet the definition of investment property and inventory are presented within "investment properties" and "properties for/under development"/"properties for sale" respectively.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities
At the commencement date of a lease, the Bank recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. 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.

2.4 Summary of significant accounting policies (Contd.)

Leases (Cont'd)

The Bank as a lessee (Contd.)

Lease liabilities (Contd.)

The lease payments include:
- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the bank is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Bank exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Bank remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:
- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Leases liabilities are presented as a separate line item on the statement of financial position and disclosed separately in the notes.

Lease modifications

The Bank accounts for a lease modification as a separate lease if:
- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Bank remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Employee benefits

(i) Short term benefits

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

2.4 Summary of significant accounting policies (Contd.)

Employee benefits (Contd.)

(ii) Defined contribution plans

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

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Taxes

(i) 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.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting 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 the taxable profit or loss.

Deferred tax asset are recognised for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred tax asset 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 asset are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax asset 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 tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Bank applies IAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax asset and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

In assessing any uncertainty over income tax treatments, the Bank considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

2.4 Summary of significant accounting policies (Contd.)

Dividends on ordinary shares

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

Dividends for the year that are approved after the reporting date are disclosed as an event after the statement of financial position date.

Equity reserves

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

'Regulatory reserve' is set up in compliance with the BoM requirement and is distributable to the Shareholder of the Bank subject to BoM's approval. The Regulatory Reserve is created as an appropriation of retained earnings based on the decision made by the management of the Bank or other authorised body, such as the Bank's management in accordance with the regulation of the BoM. Regulatory reserve mainly represents a difference between impairment provision determined for loan loss and impairment of foreclosed assets in accordance with the regulations of BoM and impairment provision determined under IFRS. This reserve represents a part of other reserve and is distributable to shareholder of the Bank subject to BoM's approval.

'Other reserves' which represent appropriations of retained earnings based on the decision of the Bank's Board of Directors. The purpose of this account is not specified at present.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

When the Bank receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the profit or loss over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

Precious metals

Coins and cultural valuables are stated at the lower of cost and net realisable value.

Foreclosed assets

Foreclosed assets are initially recognised at the lower of their fair values less costs to sell and the amortised cost of the related outstanding loans on the date of the repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, foreclosed assets are measured at the lower of their cost and fair value less costs to sell and are included in 'Other assets'.

The Bank's policy is to determine whether a foreclosed asset is 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. Assets that are determined better to be sold are immediately transferred to 'Properties held for sale'. Foreclosed assets where the Bank is yet to determine its use are retained under this account.

Properties held for sale

Properties held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Foreclosed assets are classified as properties held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

2.4 Summary of significant accounting policies (Contd.)

Segment reporting

The Bank's segment reporting is based on the following operating segments: retail banking, business banking, leasing and treasury.

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Bank (after adjusting for interest on the convertible preference shares and interest on the convertible bond, in each case net of tax, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. All material transactions and balances with the related parties are disclosed in the relevant notes to financial statements and the details are presented in Note 31.

2.5 Restatement of comparatives

The Bank has merged with its fellow subsidiary, XacLeasing LLC as of 13 November 2021 as per the shareholders' resolution of the holding company. The Bank and XacLeasing LLC had common shareholder and hence the management has accounted for the Merger as business combination under common control as of 13 November 2021, i.e. scoped out of IFRS 3 *Business combinations* and applied pooling of interest method accounting retrospectively. As the management elected an accounting policy whereby it restated the prior periods financial statements, financial statements were prepared as if the merger had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the Merger. Both the Bank's and XacLeasing LLC's financial statements were prepared using uniform accounting policies and applied consistently.

In addition, in preparing the Bank's financial statements for the year ended 31 December 2021, accounting errors were identified during the current period and prior year adjustments were made in the financial statements to rectify the accounting errors, details of which are as follows:

(a) Certain loans and advances to customers originally classified as financial assets at FVTOCI were reclassified to financial instruments at FVTPL as the loans and advances were held within a business model whose objective is to sell them. In addition, the relevant expected credit losses that had previously reduced the carrying amount of the assets and the related income tax effect were reversed.
(b) Certain loans were modified as a result of the Covid-19 relief program. The Bank had previously incorrectly reversed the modification losses to other comprehensive income and this was corrected.
(c) Senior loan was reclassified from 'Other liabilities' to 'Borrowed funds' to reflect the nature of the loan.
(d) Loans and advances to customers subject to a loan participation arrangement met the derecognition conditions. Adjustment was made to derecognise such loans and advances.
(e) Adjustment was made to measure and recognise the fair value of derivative financial instruments.
(f) Prepaid tax was reclassified from 'Other assets' to 'Income tax payable'.
(g) BoM treasury bills pledged against borrowed funds were deducted from cash and cash equivalents

As a result of the above, comparatives have been restated and a reconciliation is disclosed as follows:

2.5 Restatement of comparatives (Contd.)

At 31 December 2020	Notes	31 December 2020 Audited MNT'000	Adjustments MNT'000	31 December 2020 Restated MNT'000	Merger with XacLeasing MNT'000	Elimina-tions MNT'000	31 December 2020 Restated MNT'000
Statement of financial position							
ASSETS							
Cash and balances with BoM		179,504,448	-	179,504,448	200	-	179,504,648
Mandatory cash balances with BoM		186,372,668	-	186,372,668	-	-	186,372,668
Financial instruments at FVTPL							
Derivative financial instruments	**(e)**	68,968,391	6,715,629	75,684,020	728,578	(728,578)	75,684,020
Securities		42,356,444	-	42,356,444	-	-	42,356,444
Loans and advances to customers	**(a),(b)**	-	62,983,322	62,983,322	-	-	62,983,322
Financial assets at FVTOCI							
Equity instruments		3,609,660	-	3,609,660	-	-	3,609,660
Loans and advances to customers	**(a)**	63,181,771	(63,181,771)	-	-	-	-
Financial assets at AC							
Due from banks		76,561,599	-	76,561,599	6,148,455	(182,010)	82,528,044
Debt instruments		1,207,367,188	-	1,207,367,188	-	-	1,207,367,188
Loans and advances to customers	**(d)**	1,272,781,827	(40,228,128)	1,232,553,699	132,164,546	(3,463)	1,364,714,782
Other assets	**(f)**	40,132,698	-	40,132,698	18,250,924	(185,874)	58,197,748
Properties held for sale		2,607,895	-	2,607,895	426,028	-	3,033,923
Property, equipment and right-of-use assets		62,400,674	-	62,400,674	1,158,744	-	63,559,418
Intangible assets		14,633,933	-	14,633,933	72,600	-	14,706,533
Investment property		21,260,252	-	21,260,252	-	-	21,260,252
Deferred tax asset	**(b)**	1,951,859	280,868	2,232,727	1,301,900	-	3,534,627
TOTAL ASSETS		**3,243,691,307**	**(33,430,080)**	**3,210,261,227**	**160,251,975**	**(1,099,925)**	**3,369,413,277**
LIABILITIES AND EQUITY							
LIABILITIES							
Financial instruments at FVTPL							
Derivative financial instruments		728,578	-	728,578	-	(728,578)	-
Financial liabilities at AC							
Due to banks		1,938,909	-	1,938,909	-	-	1,938,909
Due to customers		2,025,652,948	-	2,025,652,948	-	(182,010)	2,025,470,938
Borrowed funds	**(c)**	836,317,522	2,772,315	839,089,837	98,499,489	(3,463)	937,585,863
Debt securities issued		-	-	-	10,618,643	-	10,618,643
Deferred grants		10,318,966	-	10,318,966	-	-	10,318,966
Lease liabilities		3,176,591	-	3,176,591	-	-	3,176,591
Other liabilities	**(c),(d)**	81,110,723	(43,000,443)	38,110,280	20,375,597	(185,874)	58,300,003
Income tax payable	**(a)**	7,809,768	231,256	8,041,024	730,166	-	8,771,190
TOTAL LIABILITIES		**2,967,054,005**	**(39,996,872)**	**2,927,057,133**	**130,223,895**	**(1,099,925)**	**3,056,181,103**
EQUITY							
Ordinary shares		55,342,753	-	55,342,753	3,283,226	-	58,625,979
Share premium		-	-	-	1,817,773	-	1,817,773
Other reserves		10,531,368	-	10,531,368	908,040	-	11,439,408
Retained profits	**(a),(e)**	164,465,806	6,484,373	170,950,179	23,986,371	-	194,936,550
Investment revaluation reserve		2,063,020	-	2,063,020	-	-	2,063,020
Regulatory reserve	**(a)**	27,892,949	925,024	28,817,973	-	-	28,817,973
Revaluation reserve for premises		15,498,801	-	15,498,801	32,670	-	15,531,471
Movement in fair value of financial assets at FVTOCI	**(b)**	842,605	(842,605)	-	-	-	-
TOTAL EQUITY		**276,637,302**	**6,566,792**	**283,204,094**	**30,028,080**	**-**	**313,232,174**
TOTAL LIABILITIES AND EQUITY		**3,243,691,307**	**(33,430,080)**	**3,210,261,227**	**160,251,975**	**(1,099,925)**	**3,369,413,277**

2.5 Restatement of comparatives (Contd.)

At 1 January 2020	Notes	31 December 2019 Audited MNT'000	Adjustments MNT'000	1 January 2020 Restated MNT'000	Merger with XacLeasing MNT'000	Elimina-tions MNT'000	1 January 2020 Restated MNT'000
Statement of financial position							
ASSETS							
Cash and balances with BoM		571,202,252	-	571,202,252	200	-	571,202,452
Mandatory cash balances with BoM		213,044,263	-	213,044,263	-	-	213,044,263
Financial instruments at FVTPL							
Derivative financial instruments	**(e)**	89,876,981	9,513,207	99,390,188	5,227,460	(5,227,460)	99,390,188
Securities		34,916,469	-	34,916,469	-	-	34,916,469
Loans and advances to customers	**(a),(b)**	-	69,873,744	69,873,744	-	-	69,873,744
Financial assets at FVTOCI							
Equity instruments		3,383,754	-	3,383,754	-	-	3,383,754
Loans and advances to customers	**(a)**	68,782,951	(68,782,951)	-	-	-	-
Financial assets at AC							
Due from banks		122,223,590	-	122,223,590	288,523	(36,401)	122,475,712
Debt instruments		467,741,147	-	467,741,147	-	-	467,741,147
Loans and advances to customers	**(d)**	1,725,784,584	(41,039,391)	1,684,745,193	141,862,940	(2,010,031)	1,824,598,102
Other assets	**(f)**	39,324,166	(672,806)	38,651,360	18,497,753	(1,956,017)	55,193,096
Properties held for sale		3,418,378	-	3,418,378	1,287,499	-	4,705,877
Property and equipment		67,413,003	-	67,413,003	1,161,042	-	68,574,045
Intangible assets		12,064,578	-	12,064,578	21,028	-	12,085,606
Investment property		31,919,060	-	31,919,060	-	-	31,919,060
Deferred tax asset	**(b)**	1,879,822	-	1,879,822	225,873	-	2,105,695
TOTAL ASSETS		**3,452,974,998**	**(31,108,197)**	**3,421,866,801**	**168,572,318**	**(9,229,909)**	**3,581,209,210**
LIABILITIES AND EQUITY							
LIABILITIES							
Financial instruments at FVTPL							
Derivative financial instruments		5,227,460	-	5,227,460	-	(5,227,460)	-
Financial liabilities at AC							
Repurchase agreements		297,898,939	-	297,898,939	-	-	297,898,939
Due to banks		12,229,311	-	12,229,311	-	-	12,229,311
Due to customers		1,843,180,057	-	1,843,180,057	-	(36,401)	1,843,143,656
Borrowed funds	**(c)**	895,987,384	2,768,828	898,756,212	115,355,549	(2,010,031)	1,012,101,730
Debt securities issued		-	-	-	3,226,701	-	3,226,701
Subordinated loans		54,415,887	-	54,415,887	-	-	54,415,887
Deferred grants		8,047,821	-	8,047,821	-	-	8,047,821
Lease liabilities		4,867,446	-	4,867,446	75,148	-	4,942,594
Other liabilities	**(c),(d)**	85,287,401	(43,808,219)	41,479,182	23,834,156	(1,956,017)	63,357,321
Income tax payable	**(a)**	-	(400,108)	(400,108)	867,240	-	467,132
TOTAL LIABILITIES		**3,207,141,706**	**(41,439,499)**	**3,165,702,207**	**143,358,794**	**(9,229,909)**	**3,299,831,092**
EQUITY							
Ordinary shares		55,342,753	-	55,342,753	3,283,226	-	58,625,979
Share premium		-	-	-	1,817,773	-	1,817,773
Other reserves		10,531,368	-	10,531,368	908,040	-	11,439,408
Retained profits	**(a),(e)**	145,960,360	9,240,509	155,200,869	19,171,815	-	174,372,684
Investment revaluation reserve		1,893,589	-	1,893,589	-	-	1,893,589
Regulatory reserve	**(a)**	16,513,343	1,090,793	17,604,136	-	-	17,604,136
Revaluation reserve for premises		15,591,879	-	15,591,879	32,670	-	15,624,549
TOTAL EQUITY		**245,833,292**	**10,331,302**	**256,164,594**	**25,213,524**	**-**	**281,378,118**
TOTAL LIABILITIES AND EQUITY		**3,452,974,998**	**(31,108,197)**	**3,421,866,801**	**168,572,318**	**(9,229,909)**	**3,581,209,210**

2.5 Restatement of comparatives (Contd.)

Statement of Profit or Loss and Other Comprehensive income	Notes	31 December 2020 Audited MNT'000	Adjustments MNT'000	31 December 2020 Restated MNT'000	Merger with XacLeasing MNT'000	Elimina-tions MNT'000	31 December 2020 Restated MNT'000
Interest and similar income	**(d)**	366,408,789	(5,492,389)	360,916,400	25,544,777	(4,703,857)	381,757,320
Interest and similar expenses	**(d)**	(257,517,582)	5,492,389	(252,025,193)	(15,165,362)	4,703,857	(262,486,698)
Net interest income		**108,891,207**	**-**	**108,891,207**	**10,379,415**	**-**	**119,270,622**
Fees and commission income		22,895,400	-	22,895,400	395,970	(2,508)	23,288,862
Fees and commission expense		(6,379,964)	-	(6,379,964)	(12,364)	2,508	(6,389,820)
Net fees and commission Income		**16,515,436**	**-**	**16,515,436**	**383,606**	**-**	**16,899,042**
Net trading loss		(5,270,026)	-	(5,270,026)	7,323,621	-	2,053,595
Net income from other financial instruments at FVPL		3,255,082	-	3,255,082	-	-	3,255,082
Net other operating income	**(e)**	1,456,477	(2,797,578)	(1,341,101)	(7,320,461)	-	(8,661,562)
Total operating income		**124,848,176**	**(2,797,578)**	**122,050,598**	**10,766,181**	**-**	**132,816,779**
Net credit loss expense	**(a)**	(19,021,376)	(165,769)	(19,187,145)	(738,393)	-	(19,925,538)
Net operating income		**105,826,800**	**(2,963,347)**	**102,863,453**	**10,027,788**	**-**	**112,891,241**
Operating expenses		(68,405,082)	-	(68,405,082)	(1,874,588)	-	(70,279,670)
Amortisation of deferred grants		1,174,729	-	1,174,729	-	-	1,174,729
Profit before tax		**38,596,447**	**(2,963,347)**	**35,633,100**	**8,153,200**	**-**	**43,786,300**
Income tax expense	**(a)**	(8,804,473)	41,442	(8,763,031)	(1,338,644)	-	(10,101,675)
Profit for the period		**29,791,974**	**(2,921,905)**	**26,870,069**	**6,814,556**	**-**	**33,684,625**
Other comprehensive income:							
Movement in investment revaluation reserve, net of tax		169,431	-	169,431	-	-	169,431
Movement in fair value of Financial assets at FVTOCI, net of tax	**(b)**	842,605	(842,605)	-	-	-	-
Other comprehensive income for the period		**1,012,036**	**(842,605)**	**169,431**	**-**	**-**	**169,431**
Total comprehensive income for the period		**30,804,010**	**(3,764,510)**	**27,039,500**	**6,814,556**	**-**	**33,854,056**

Statement of Cash flow	Notes	31 December 2020 Audited MNT'000	Adjustments MNT'000	31 December 2020 Restated MNT'000	Merger with XacLeasing MNT'000	Elimina-tions MNT'000	31 December 2020 Restated MNT'000
Net cash flow generated from operating activities	**(c)**	384,407,078	(3,487)	384,403,591	29,815,437	(2,005,194)	412,213,834
Net cash flow generated from investing activities	**(g)**	100,126,460	(20,193,000)	79,933,460	1,061,192	-	80,994,652
Net cash flow used in financing activities	**(c)**	(196,045,599)	3,487	(196,042,112)	(25,016,959)	1,859,847	(219,199,224)
Effect of exchange rate changes on cash and cash equivalents		19,065,845	-	19,065,845	262	(262)	19,065,845
Net increase in cash and cash equivalents		**307,553,784**	**(20,193,000)**	**287,360,784**	**5,859,932**	**(145,609)**	**293,075,107**
Cash and cash equivalents brought forward		1,155,879,451	-	1,155,879,451	288,723	(36,401)	1,156,131,773
Cash and cash equivalents carried forward		**1,463,433,235**	**(20,193,000)**	**1,443,240,235**	**6,148,655**	**(182,010)**	**1,449,206,880**

3. Segment information

For management purposes, the Bank is organised into four operating segments based on products and services as follows:

Retail banking	- Individual customers and SME or smaller in size business services including current accounts, term savings, credit and debit cards, consumption loans and financial leasing, standard credit facility or loans for micro, small and medium companies and internally developed and marketed credit products such as green loan, women entrepreneur loans as well as regular banking account services from payments, currency exchange to cross border cash transfers and remittances.
Business banking	- Commercial banking activities for corporate customers including tailored credit offerings including products such as risk sharing facility, export/ import trade financing as well as customized account services from overdrafts, currency deposits to international remittances at preferential rates.
Leasing	- Financial leasing services with the portfolio mainly consisting of lease for commercial and passenger vehicles including used cars, complimented by lease products on medical and agricultural equipment.
Treasury	- Cash, currency and liquidity management, Securities investments, Interbank trading or market making for smaller banks and any other financial instruments trading on an ad-hoc basis.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a Bank wide basis and are not allocated to operating segments.

Interest income is reported net basis as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Transfer pricing between operating segments are based on internal fund transfer method.

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.

Geographical information

All the Bank's activities were carried out in Mongolia. Therefore, no geographical analysis is presented.

3. Segment information (Contd.)

The following table presents income and profit and certain asset and liability information related to the Bank's operating segments for 2021.

	Retail Banking	Business Banking	Leasing	Treasury	Total
	2021 MNT'000	2021 MNT'000	2021 MNT'000	2021 MNT'000	2021 MNT'000
Income					
Third party	87,235,727	56,440,269	16,981,251	25,445,815	186,103,062
Inter-segment	29,787,251	(19,485,201)	(2,633,650)	(7,668,400)	-
	117,022,978	**36,955,068**	**14,347,601**	**17,777,415**	**186,103,062**
Net credit loss expense	(1,361,529)	(2,090,911)	(228,324)	(890,436)	(4,571,200)
Operating income	**115,661,449**	**34,864,157**	**14,119,277**	**16,886,979**	**181,531,862**
Results					
Net interest income/(expense)	72,256,813	48,347,981	16,591,974	24,161,190	161,357,958
Net fees and commission income	15,656,102	2,908,136	360,511	-	18,924,749
Net trading gain	-	-	-	5,378,028	5,378,028
Derivative instruments	-	-	-	816,488	816,488
Depreciation of property and equipment	(5,102,658)	(618,606)	-	(618,606)	(6,339,870)
Depreciation of right-of-use assets	(3,711,714)	-	-	-	(3,711,714)
Amortisation of intangible assets	(2,332,933)	(288,827)	-	(288,827)	(2,910,587)
Other operating expenses	(52,294,200)	(9,965,533)	(2,462,391)	(2,786,659)	(67,508,783)
Amortisation of deferred grants	-	1,407,264	-	-	1,407,264
Net other operating (expense)/income	(677,188)	5,184,152	28,766	(4,909,891)	(374,161)
Net credit loss expense	(1,361,529)	(2,090,911)	(228,324)	(890,436)	(4,571,200)
Inter segment	29,787,251	(19,485,201)	(2,633,650)	(7,668,400)	-
Segment profit for the year before tax	**52,219,944**	**25,398,455**	**11,656,886**	**13,192,887**	**102,468,172**
Income tax expense	(18,259,784)	(1,898,708)	(2,007,030)	(5,039,775)	(27,205,297)
Profit for the year after tax	**33,960,160**	**23,499,747**	**9,649,856**	**8,153,112**	**75,262,875**
Other segment information					
Capital expenditures:					
Property and equipment	4,512,707	795,035	73,238	-	5,380,980
Other intangible assets	3,070,517	540,256	45,802	-	3,656,575
	7,583,224	**1,335,291**	**119,040**	**-**	**9,037,555**
Total segment assets	**1,538,902,563**	**343,373,878**	**193,560,060**	**1,424,122,127**	**3,499,958,628**
Total segment liabilities	**2,350,149,620**	**110,864,098**	**81,009,182**	**573,940,884**	**3,115,963,784**

3. Segment information (Contd.)

The following table presents income and profit and certain asset and liability information related to the Bank's operating segments for 2020.

	Retail Banking	Business Banking	Leasing	Treasury	Total
	2020 MNT'000 (Restated)	2020 MNT'000 (Restated)	2020 MNT'000 (Restated)	2020 MNT'000 (Restated)	2020 MNT'000 (Restated)
Income					
Third party	81,335,620	55,714,154	3,442,560	(7,675,555)	132,816,779
Inter-segment	12,448,240	(35,944,007)	-	23,495,767	-
	93,783,860	**19,770,147**	**3,442,560**	**15,820,212**	**132,816,779**
Net credit loss expense	(6,991,229)	(12,195,916)	(738,393)	-	(19,925,538)
Operating income	**86,792,631**	**7,574,231**	**2,704,167**	**15,820,212**	**112,891,241**
Results					
Net interest income/(expense)	68,752,149	52,074,307	10,379,415	(8,680,167)	122,525,704
Net fees and commission income	13,155,822	3,359,614	383,606	-	16,899,042
Net trading gain	-	-	-	2,627,760	2,627,760
Derivative instruments	-	-	-	(574,165)	(574,165)
Depreciation of property and equipment	(5,372,145)	(599,139)	(147,438)	(665,710)	(6,784,432)
Depreciation of right-of-use assets	(3,712,990)	-	(72,616)	-	(3,785,606)
Amortisation of intangible assets	(2,151,485)	(239,054)	(15,458)	(265,615)	(2,671,612)
Other operating expenses	(44,021,712)	(9,087,744)	(1,639,076)	(2,289,488)	(57,038,020)
Amortisation of deferred grants	-	1,174,729	-	-	1,174,729
Net other operating (expense)/income	(572,351)	280,233	(7,320,461)	(1,048,983)	(8,661,562)
Net credit loss expense	(6,991,229)	(12,195,916)	(738,393)	-	(19,925,538)
Inter segment	12,448,240	(35,944,007)	-	23,495,767	-
Segment profit for the year before tax	**31,534,299**	**(1,176,977)**	**829,579**	**12,599,399**	**43,786,300**
Income tax expense	(6,683,694)	332,615	(1,338,644)	(2,411,952)	(10,101,675)
Profit for the year after tax	**24,850,605**	**(844,362)**	**(509,065)**	**10,187,447**	**33,684,625**
Other segment information					
Capital expenditures:					
Property and equipment	2,068,258	362,870	300,608	-	2,731,736
Other intangible assets	4,175,573	1,096,336	67,030	-	5,338,939
	6,243,831	**1,459,206**	**367,638**	**-**	**8,070,675**
Total segment assets	**2,029,058,919**	**469,262,738**	**159,152,050**	**711,939,570**	**3,369,413,277**
Total segment liabilities	**1,823,704,721**	**392,806,012**	**129,123,970**	**710,546,400**	**3,056,181,103**

4. Net interest income

Interest and similar income

	2021 MNT'000	2020 (Restated) MNT'000
Financial instruments at amortised cost and FVTPL		
Loans and advances to customers	249,776,766	282,116,535
Debt instruments	71,182,477	91,438,323
Swap interest	7,140,118	917,081
Cash and balances with BoM	3,236,079	6,151,726
Due from banks	339,848	788,902
Security Finance Corporation (SFC)-Senior ABS	274,960	-
Reverse repurchase agreements	136,090	344,753
	332,086,338	**381,757,320**

The total interest income calculated using the EIR method for financial assets at FVTPL is MNT 2.3 billion during the financial year 2021 and for financial assets measured at amortised cost is MNT 329.8 billion during the financial year 2021. (2020: FVTOCI is MNT 2.9 billion and at amortised cost is MNT 378.8 billion).

Interest and similar expense

	2021 MNT'000	2020 (Restated) MNT'000
Financial instruments at amortised cost		
Due to customers	107,416,115	142,840,524
Borrowed funds	46,493,820	79,173,782
Swap interest	18,417,743	33,256,565
Interest expense for lease liabilities (Note 19.3)	555,674	321,453
Debt securities issued	490,421	726,671
Due to banks	428,745	219,868
Repurchase agreements	109,782	265,032
Other interest expenses	417,745	223,700
Subordinated loans	-	5,459,103
	174,330,045	**262,486,698**
Net interest income	**157,756,293**	**119,270,622**

5. Net fees and commission income

	2021 MNT'000	2020 (Restated) MNT'000
Fees and commission income		
Card related fees and commissions	16,261,259	12,885,258
Remittance, trade finance and other fees	7,340,655	7,078,932
Account service fees and commissions	2,732,088	2,593,256
Credit related fees and commissions	610,133	731,416
	26,944,135	**23,288,862**
Fees and commission expenses		
Card transaction charges	6,053,768	4,714,123
Bank service charges	1,899,028	1,625,387
Credit related commissions	66,590	50,310
	8,019,386	**6,389,820**
Net fees and commission income	**18,924,749**	**16,899,042**

5. Net fees and commission income (Contd.)

	Retail Banking 2021 MNT'000	Business Banking 2021 MNT'000	Leasing 2021 MNT'000	Treasury 2021 MNT'000	Total 2021 MNT'000
Fee income from providing financial services at a point in time					
Card related fees and commissions	16,261,259	-	-	-	16,261,259
Remittance and other service fees	4,590,603	2,382,196	360,511	-	7,333,310
Account service fees and commissions	2,732,088	-	-	-	2,732,088
Credit related fees and commissions	84,194	525,939	-	-	610,133
	23,668,144	2,908,135	360,511	-	26,936,790
Fee income earned from services that are provided over time					
Custody fees	7,345	-	-	-	7,345
	7,345	-	-	-	7,345
Total revenues from contracts with customers	**23,675,489**	**2,908,135**	**360,511**	**-**	**26,944,135**

	Retail Banking 2020 MNT'000	Business Banking 2020 MNT'000	Leasing 2020 MNT'000	Treasury 2020 MNT'000	Total 2020 MNT'000
Fee income from providing financial services at a point in time					
Card related fees and commissions	12,885,258	-	-	-	12,885,258
Remittance and other service fees	3,949,293	2,726,293	395,970	-	7,071,556
Account service fees and commissions	2,593,256	-	-	-	2,593,256
Credit related fees and commissions	98,094	633,322	-	-	731,416
	19,525,901	3,359,615	395,970	-	23,281,486
Fee income earned from services that are provided over time					
Custody fees	7,376	-	-	-	7,376
	7,376	-	-	-	7,376
Total revenues from contracts with customers	**19,533,277**	**3,359,615**	**395,970**	**-**	**23,288,862**

6. Net trading income

	2021 MNT'000	2020 (Restated) MNT'000
Foreign exchange	4,745,788	2,062,224
Derivative instruments	816,488	(574,165)
Interest income on Senior RMBS (FVTPL)	665,952	365,432
Precious metal	52,170	274,161
Fair value changes in Senior RMBS (FVTPL)	(85,882)	(74,057)
	6,194,516	**2,053,595**

7. Net income from other financial instruments at FVTPL

Net income from financial instruments mandatorily measured at FVTPL other than held for trading

	2021 MNT'000	2020 MNT'000
Interest income on Junior RMBS	4,010,813	3,797,026
Interest income on SFC Junior ABS	32,395	-
Fair value changes in Junior RMBS	(261,952)	(517,190)
Fair value changes SFC Junior ABS	(22,678)	-
Fair value changes in Closed ended Investment Fund	-	(24,754)
Loss on disposal of Closed ended Investment Fund	(156,913)	-
	3,601,665	**3,255,082**

8. Net other operating income/(expenses)

	2021 MNT'000	2020 (Restated) MNT'000
Unrealised foreign exchange gain	21,922,069	15,274,775
Reversal of impairment on foreclosed properties (net) (Note 17)	3,026,616	2,447,205
Other operating income	1,760,612	377,751
Rental income	596,500	868,249
Gain/(loss) on disposal of properties held for sale (Note 18)	155,981	(268,824)
Reversal /(Provision) of impairment loss on properties held for sale (Note 18)	116,699	(92,329)
Gain on disposal of property and equipment	4,862	54,250
Fair value change of swaps	(26,831,960)	(23,706,168)
Loss on disposal of foreclosed properties (Note 17)	(1,125,540)	(308,818)
Gain on disposal of investment property	-	2,080
Fair value loss on investment property (Note 21)	-	(3,085,935)
Loss on disposal of loans and advances to customers	-	(223,798)
	(374,161)	**(8,661,562)**

9. Net credit loss expense

	2021 MNT'000	2020 (Restated) MNT'000
Reversal/(charge) of ECL:		
Loans and advances to customers (Note 16.3)	(2,045,628)	(16,746,211)
Modification loss, net (Note 32.2)	(1,755,888)	(2,143,945)
BoM treasury bills (Note 16.2)	(888,704)	-
"Erdenes-Tavantolgoi" JSC bonds (Note 16.2)	(265,447)	25,393
Mandatory cash balances with BoM (Note 13.2)	(177,778)	-
SFC-Senior ABS (Note 16.2)	(39,259)	-
Due from banks (Note 16.1)	21,084	(233,422)
Contingent liability and commitments (Note 25)	135,359	(257,582)
Other financial assets (Note 17)	445,061	(569,771)
	(4,571,200)	**(19,925,538)**

10. Operating expenses

	2021	2020 (Restated)
	MNT'000	MNT'000
Personnel expenses*	40,514,154	33,088,592
IT and communications	6,989,996	6,652,482
Depreciation of property, plant and equipment (Note 19)	6,339,870	6,784,432
Deposit insurance expense	4,066,829	3,988,806
Depreciation of right of use assets (Note 19)	3,711,714	3,785,606
Amortisation of intangible assets (Note 20)	2,910,587	2,671,612
Other operating expenses	2,689,756	3,002,645
Outside service fees	2,328,080	1,597,435
Advertising	1,837,484	847,947
Meeting and staff activity	1,460,694	487,665
Armored guard and security	1,211,942	1,215,127
Stationary	1,004,152	1,060,044
Utilities	957,219	1,002,102
Revaluation deficit (Note 19)	868,801	-
Membership and audit expenses	754,334	565,409
Insurance	710,250	563,773
Transportation	609,178	607,573
Repairs and maintenance	602,052	458,705
Loan collection expenses	474,835	1,454,346
Penalty	112,912	34,060
Business trip expenses	96,178	183,582
Property and equipment written-off (Note 19)	80,098	59,044
Rental of premises	79,147	10,199
Donations	60,692	112,084
Intangible asset written-off	-	46,400
	80,470,954	**70,279,670**

*** Personnel expenses**		
Salaries, wages and bonus	35,606,282	30,357,797
Contribution to social and health fund	4,219,545	2,137,204
Employer of contribution to defined contribution pension plan	541,495	530,146
Staff training	146,832	63,445
	40,514,154	**33,088,592**

***** As a response to the COVID-19 global pandemic, the Parliament of Mongolia has passed a Law on exemption from Social Insurance Commission on 9 April 2020. By this law, the Bank is exempted from paying Social Insurance Commission from 1 April 2020 until 1 July 2021 and this resulted in the reduction of payroll related expense in the amount of MNT 394.4 million (2020: MNT 1,683 million).

11. Corporate income tax

11.1 Income tax expense

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

	2021 MNT'000	2020 (Restated) MNT'000
Current tax:		
Current income tax	27,806,995	11,587,083
Deferred tax		
Relating to origination and reversal of temporary differences (Note 11.2)	(601,698)	(1,485,408)
Income tax expense for the year	**27,205,297**	**10,101,675**

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% (2020: 10%) for the first MNT 6 billion (2020: MNT 6 billion) of taxable income, and 25% (2020: 25%) on the excess of taxable income over MNT 6 billion (2020: MNT 6 billion). Interest income on government bonds is not subject to income tax.

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

	2021 MNT'000	2020 (Restated) MNT'000
Profit before tax	102,468,172	43,786,300
Tax at statutory tax rate of 25% (2020: 25%)	25,617,043	10,946,575
Effect of income tax subject to lower tax rate	(900,000)	(900,000)
Effect of income not subject to tax	(1,081,331)	(2,243,462)
Effect of expenses not deductible for tax purposes	2,810,179	2,119,703
Effect of the special tax for certain type of taxable income	759,406	178,859
Tax expense for the year	**27,205,297**	**10,101,675**

The effective income tax rate for 2021 is 26.55% (2020: 23.07%).

11.2 Deferred tax asset

	2021 MNT'000	2020 (Restated) MNT'000
At beginning of the year	3,534,627	2,105,695
Recognised in statement of profit or loss (Note 11.1)	601,698	1,485,409
Recognised in other comprehensive income	(884)	(56,477)
At end of the year	**4,135,441**	**3,534,627**

11. Corporate income tax (Contd.)

11.2 Deferred tax asset (Contd.)

Deferred taxes analysed by type of temporary difference

As at 31 December 2021	1 January 2021 MNT'000	Recognised in statement of profit or loss MNT'000	Recognized in other comprehensive income MNT'000	31 December 2021 MNT'000
Property and equipment	(749,272)	(9,673)	-	(758,945)
Depreciation of right of use assets	32,177	12,805	-	44,982
Loans and advances to customers	1,511,097	503,980	-	2,015,077
Derivative financial instruments	1,251,940	(1,251,940)	-	-
Other liabilities				
Deferral of long term incentive plan	405,072	(188,139)	-	216,933
Accrued expense for employees	1,714,922	1,436,815	-	3,151,737
Accrued expense	168,222	91,285	-	259,507
Securities at FVTOCI	(687,674)	-	(884)	(688,558)
Borrowings	(111,857)	6,565	-	(105,292)
Net deferred tax asset/(liability)	**3,534,627**	**601,698**	**(884)**	**4,135,441**
Recognised deferred tax asset	5,083,430	604,806	-	5,688,236
Recognised deferred tax liability	(1,548,803)	(3,108)	(884)	(1,552,795)
Net deferred tax asset/(liability)	**3,534,627**	**601,698**	**(884)**	**4,135,441**

As at 31 December 2020 (Restated)	1 January 2020 (Restated) MNT'000	Recognised in statement of profit or loss MNT'000	Recognized in other comprehensive income MNT'000	31 December 2020 (Restated) MNT'000
Property and equipment	(538,540)	(210,732)	-	(749,272)
Depreciation of right of use assets	43,249	(11,072)	-	32,177
Loans and advances to customers	1,820,774	(309,677)	-	1,511,097
Derivative financial instruments	148,768	1,103,172	-	1,251,940
Other liabilities				
Deferral of long term incentive plan	563,810	(158,738)	-	405,072
Accrued expense for employees	840,997	873,925	-	1,714,922
Accrued expense	18,617	149,605	-	168,222
Securities at FVTOCI	(631,197)	-	(56,477)	(687,674)
Borrowings	(160,783)	48,926	-	(111,857)
Net deferred tax asset/(liability)	**2,105,695**	**1,485,409**	**(56,477)**	**3,534,627**
Recognised deferred tax asset	3,436,215	1,647,215	-	5,083,430
Recognised deferred tax liability	(1,330,520)	(161,806)	(56,477)	(1,548,803)
Net deferred tax asset/(liability)	**2,105,695**	**1,485,409**	**(56,477)**	**3,534,627**

12. Earnings per share

The following table shows the income and share data used in the basic and diluted earnings per share calculations:

	2021 MNT'000	2020 (Restated) MNT'000
Profit for the period and total comprehensive income for the period attributable to equity holders of the Bank	75,262,875	33,684,625
Weighted average number of ordinary shares for basic and diluted earnings per share	1,000,000,000	1,000,000,000

Earnings per share

	2021 MNT	2020 MNT
Equity holders of the Bank for the period:		
Basic earnings per share	75.26	33.68
Diluted earnings per share	75.26	33.68

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year, and adjusted by the the share split and declaration of stock dividend during the year (note 26).

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

13. Cash and bank balances

13.1 Cash and balances with BoM

	2021 MNT'000	2020 (Restated) MNT'000
Current account with BoM	210,268,128	140,220,791
Cash on hand	38,045,253	39,283,857
	248,313,381	**179,504,648**

13.2 Mandatory cash balances with BoM

	2021 MNT'000	2020 MNT'000
Mandatory cash balances with BoM	214,409,082	186,372,668
Less: Impairment allowance for Mandatory cash balances with the BoM	(177,778)	-
	214,231,304	**186,372,668**

	2021 MNT'000	2020 MNT'000
At beginning of the year	-	-
Charge for the year (Note 9)	177,778	-
At end of the year	**177,778**	**-**

Current accounts with BoM are maintained in accordance with BoM's regulations. The balances maintained with BoM are determined at not less than 6.0% and 18.0% (2020: 6.0% and 15.0 %) of customer deposits in local and foreign currency, respectively on average balance of two weeks before period end. As at 31 December 2021, the average reserve required by BoM for that period of 2 weeks was MNT 108,666.43 million (2020: MNT 97,370.60 million) for local currency and MNT 105,742.65 million (2020: MNT 89,002.07 million) for foreign currency maintained in current accounts with BoM.

13.3 Cash and cash equivalents

	Note	2021 MNT'000	2020 (Restated) MNT'000
Cash and balances with BoM	**13.1**	248,313,381	179,504,648
Due from banks	**16.1**	42,487,278	82,528,044
BoM treasury bills	**16.2**	907,686,267	1,207,367,188
Less: BoM treasury bills pledged against borrowed funds from BoM		(26,133,000)	(20,193,000)
Less: Placements with other banks with original maturities of more than three months		-	-
Less: BoM treasury bills with original maturities of more than 3 months		-	-
Total cash and cash equivalents		**1,172,353,926**	**1,449,206,880**

Additional information on non cash transaction

During the period, the Bank sold certain 5% to 8% mortgage loans with a carrying amount of MNT 42,109 million (2020: MNT 38,543 million) to MIK for which it received RMBS amounting to MNT 37,898 million (2020: MNT 34,688 million) senior tranche and MNT 4,211 million (2020: MNT 3,855 million) junior tranche, in return.

During the period, the Bank sold certain 10.5% repo financed loans with a carrying amount of MNT 10,372 million (2020: null) to SFC for which it received ABS amounting to MNT 9,335 million (2020: null) senior tranche and MNT 1,037 million (2020: null) junior tranche, in return.

14. Financial instruments at fair value through profit or loss

14.1 Financial assets

	2021 MNT'000	2020 (Restated) MNT'000
Debt instruments		
MIK-Junior RMBS	42,554,601	37,248,810
MIK-Senior RMBS	32,707,952	4,066,916
SFC-Junior ABS (Note 16.3)	1,026,400	-
Closed Ended Investment Fund	-	1,040,718
	76,288,953	**42,356,444**
Loans and advances to customers at FVTPL	**90,000,608**	**62,983,322**

14. Financial assets at amortised cost (Contd.)

14.2 Derivative financial instruments

The table below shows the fair value 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.

	Assets 2021 MNT'000	Liabilities 2021 MNT'000	Notional amount 2021 MNT'000
Derivatives held for trading			
Foreign currency swap contracts	67,308	-	8,546,400
Interest rate swap	49,155,802	371,050	708,205,507

	2020 Restated MNT'000	2020 Restated MNT'000	2020 Restated MNT'000
Derivatives held for trading			
Foreign currency swap contracts	12,931,412	-	25,395,723
Interest rate swap	62,752,608	-	873,089,864

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.

Disclosures concerning the fair value of derivatives are provided in Note 28.

15. Financial assets at fair value through other comprehensive income

	Fair value 2021 MNT'000	Changes in fair value taken directly through OCI 2021 MNT'000	Fair value Restated 2020 MNT'000	Changes in fair value taken directly through OCI Restated 2020 MNT'000
Equity instruments				
Unquoted equities*	455,988	(122,241)	460,876	(118,576)
Quoted equities**	3,157,209	2,187,914	3,148,784	2,181,596
	3,613,197	**2,065,673**	**3,609,660**	**2,063,020**

* Unquoted equity instruments represent investments made in unquoted private companies.
**Quoted equities at fair value represent equity investment in MIK, listed on the Mongolia Stock Exchange.

Equity instruments designated at fair value through OCI include investments in equity shares of non-listed companies. The Bank holds non-controlling interests in these companies. These investments were irrevocably designated at fair value through OCI as the Bank considers these investments to be strategic in nature.

During the year, the Bank didn't receive any dividends.

16. Financial assets at amortised cost

16.1 Due from banks

	2021 MNT'000	2020 (Restated) MNT'000
Placement with foreign banks and financial institutions		
Current accounts	40,221,807	44,785,063
Placement with local banks and financial institutions		
Current accounts	2,245,739	2,318,373
Term deposits	232,070	35,658,030
Less: Impairment allowance for due from banks	(212,338)	(233,422)
	42,487,278	**82,528,044**

Impairment allowance for due from banks

At beginning of the year	233,422	-
(Reversal) /charge for the year (Note 9)	(21,084)	233,422
At end of the year	212,338	233,422

16.2 Debt instruments

	2021 MNT'000	2020 MNT'000
BoM treasury bills (Note 13.3)	907,686,267	1,207,367,188
"Erdenes-Tavantolgoi" JSC bonds	12,279,452	-
SFC-Senior ABS (Note 16.3)	7,942,206	-
Less: Impairment allowance for debt instruments	(1,193,410)	-
	926,714,515	**1,207,367,188**

Impairment allowance for debt instruments

At beginning of the year	-	25,392
Charge/ (reversal) for the year (Note 9)	1,193,410	(25,392)
At end of the year	**1,193,410**	**-**

As at 31 Decemcer 2021, the carrying amount of BoM treasury bill which have been pledged as security for the borrowing obtained from BoM, is MNT 26.13 billion (2020: 20.19 billion).

16.3 Loans and advances to customers

	2021 MNT'000	2020 (Restated) MNT'000
Loans and advances to customers at amortised cost*	1,645,575,773	1,304,672,422
Lease receivables	131,701,203	134,412,313
Less: Allowance for impairment losses	(75,719,215)	(74,369,953)
	1,701,557,761	**1,364,714,782**

Transferred financial assets that are derecognised in their entirety

Sale of mortgage pool

During the year, the Bank sold 100% of the rights of the cash flows arising from portfolios of fixed rate mortgage loans to wholly owned special purpose companies of MIK in exchange for RMBS. The Bank derecognised the loan portfolio and recognised the Senior RMBS and Junior RMBS received as financial assets (see Note 13.3).

16. Financial assets at amortised cost (Contd.)

16.3 Loans and advances to customers (Contd.)

Transferred financial assets that are not derecognised in their entirety

*On 20 February 2021, the GoM 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 production began in May 2021.

As part of sub-program in supporting SMEs, the Bank participated in securitisation transactions with wholly owned special purpose companies of SFC in selling SME loan pools collateralized by immovable assets with recourse. The Bank originated a total of MNT 10,149 million of SME loans with an interest rate of 10.5% p.a and maturity of 2-3 years (“Repo financed loans”), in return for which the Bank received ABS. The Bank retained substantially all the risks and rewards related to the loans sold to SFC within these transactions. Therefore, the assets that do not qualify for derecognition amounted to MNT 8,375 million and recognised a financial liability for any consideration received as at 31 December 2021 (see Note 25). The Bank recognized the Senior ABS and Junior ABS received as financial assets bearing an interest rate of 9.5% p.a with a maturity of up to 3 years (see Notes 14.1 and 16.2).

	2021 MNT'000	2020 (Restated) MNT'000
Loans and advances to customers at amortised cost		
Gross carrying amount		
Stage 1	1,462,676,465	1,138,108,839
Stage 2	99,065,946	64,203,230
Stage 3	83,833,362	102,360,353
	1,645,575,773	**1,304,672,422**
Less: Allowance for impairment losses		
Stage 1	(7,895,436)	(11,198,882)
Stage 2	(23,218,898)	(10,938,298)
Stage 3	(41,651,873)	(49,985,006)
	(72,766,207)	**(72,122,186)**
Net loans and advances to customers	**1,572,809,566**	**1,232,550,236**

	2021 MNT'000	2020 (Restated) MNT'000
Lease receivables at amortised cost		
Gross carrying amount		
Stage 1	126,175,586	109,193,008
Stage 2	4,360,875	23,099,330
Stage 3	1,164,742	2,119,975
	131,701,203	**134,412,313**
Less: Allowance for impairment losses		
Stage 1	(2,069,201)	(1,325,548)
Stage 2	(338,096)	(561,058)
Stage 3	(545,711)	(361,161)
	(2,953,008)	**(2,247,767)**
Net loans and advances to customers	**128,748,195**	**132,164,546**

16. Financial assets at amortised cost (Contd.)

16.3 Loans and advances to customers (Contd.)

Impairment allowance for loans and advances to customers and lease receivables

	2021 MNT'000	2020 (Restated) MNT'000
At beginning of the year	74,369,953	59,030,899
Charge for the year (Note 9)	2,045,628	16,746,211
Written off	(696,366)	(1,407,157)
At end of the year	**75,719,215**	**74,369,953**

Lease receivables

MNT'000	Lease payments 2021 Audited	Present value of lease payments 2021 Audited	Lease payments 2020 Restated	Present value of lease payments 2020 Restated
Total minimum lease receivables				
Within 1 year (inclusive)	61,944,111	43,549,533	69,411,393	41,569,782
Over 1 year but within 2 years (inclusive)	39,321,792	26,999,554	43,532,711	33,579,438
Over 2 years but within 3 years (inclusive)	27,457,232	19,116,242	26,411,638	19,859,060
Over 3 years but within 4 years (inclusive)	19,789,834	14,209,729	16,779,263	12,267,889
Over 4 years but within 5 years (inclusive)	14,768,291	11,271,999	12,017,774	8,823,581
Over 5 years	19,161,090	16,554,146	20,238,372	18,312,563
Unguaranteed residual values	182,442,350	131,701,203	188,391,151	134,412,313
Gross investment in the lease	182,442,350	131,701,203	188,391,151	134,412,313
Less: Unearned finance income	(50,741,147)		(53,978,838)	
Present value of minimum lease payment receivables	131,701,203		134,412,313	
Less: Impairment allowances	(2,953,008)	(2,953,008)	(2,247,767)	(2,247,767)
Net carrying amount of finance lease receivables	128,748,195	128,748,195	132,164,546	132,164,546

17. Other assets

	2021 MNT'000	2020 (Restated) MNT'000
Other financial assets		
Receivables on cash and settlement services	345,382	3,616,065
Receivables from companies and individuals	4,458,691	10,453,890
Cash collaterals	1,610,073	1,382,031
Deferred staff loan*	1,489,724	-
Other financial assets	406,669	4,651
Less: Impairment allowance for other financial assets	(1,618,289)	(2,096,879)
	6,692,250	**13,359,758**
Impairment allowance for other financial assets		
Stage 1	9,820	120,173
Stage 2	37,757	20,813
Stage 3	1,570,712	1,955,893
	1,618,289	**2,096,879**
Impairment allowance for other financial assets		
At beginning of the year	2,096,879	1,556,564
(Reversal) /Charge for the year (Note 9)	(445,061)	569,771
Written off	(33,529)	(29,456)
At end of the year	**1,618,289**	**2,096,879**
Other non-financial assets		
Advance to vendor for goods and service	2,438,306	2,569,077
Consumables and other inventories	202,765	1,459,451
Prepaid expense	1,582,146	164,190
Precious metals	94,439	94,439
VAT receivables	12,154,393	12,278,466
Other non-financial assets	39,582	205,979
Foreclosed properties	46,795,646	40,499,577
Less: Impairment allowance for foreclosed properties	(9,406,573)	(12,433,189)
	53,900,704	**44,837,990**
Total other assets	**60,592,954**	**58,197,748**

*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.

17. Other assets (Contd.)

	2021	2020 (Restated)
	MNT'000	**MNT'000**
Foreclosed properties		
At beginning of the year	40,499,577	33,486,183
Add: Possession	5,403,599	6,351,568
Add: Transfer from properties held for sale (Note 18)	1,149,747	-
Add: Transfer from investment property (Note 21)	21,260,252	7,478,873
Less: Sold during the year	(20,535,985)	(4,247,502)
Less: Transfer to property, plant and equipment (Note 19)	(981,544)	-
Less: Transfer to properties held for sale (Note 18)	-	(2,569,545)
	46,795,646	**40,499,577**
Less: Allowances for impairment losses	(9,406,573)	(12,433,189)
At end of the year	**37,389,073**	**28,066,388**

Impairment allowance for foreclosed properties		
At beginning of the year	12,433,189	14,880,394
Charge for the year (Note 8)	1,850,761	12,571,767
Recoveries (Note 8)	(4,877,377)	(15,018,972)
At end of the year	**9,406,573**	**12,433,189**

Proceeds from the sale of foreclosed properties during the year were MNT 19,410,445 thousand (2020: MNT 3,938,684 thousand) and the loss on the sale of such properties amounted to MNT 1,125,540 thousand (2020: loss amounted to MNT 308,818 thousand).

18. Properties held for sale

	2021	2020 (Restated)
	MNT'000	**MNT'000**
At beginning of the year	3,150,622	4,797,956
Add: Transfer from property and equipment (Note 19)	92,875	-
Add: Possession	969,660	521,784
Add: Transfer from foreclosed properties (Note 17)	-	2,569,545
Less: Sold during the year	(2,929,816)	(4,460,803)
Less: Transfer to Foreclosed properties (Note 17)	(1,149,747)	-
Less: Transfer to property and equipment (Note 19)	-	(277,860)
	133,594	**3,150,622**
Less: Allowances for impairment losses	-	(116,699)
At end of the year	**133,594**	**3,033,923**

Impairment allowance for properties held for sale		
At beginning of the year	116,699	92,080
Charge for the year (Note 8)	-	92,329
Recoveries (Note 8)	(116,699)	(67,710)
At end of the year	**-**	**116,699**

Proceeds from the sale of buildings during the year were MNT 3,085,797 thousand (2020: MNT 4,191,979 thousand). The gain on the sale of properties held for sale amounted to MNT 155,981 thousand (2020: loss amounted to MNT 268,824 thousand) and is recorded as part of 'Net other operating expense' (Note 8).

The Management assessed that those assets are available for immediate sale and can be sold to the buyer in its current condition. The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification.

19. Property, equipment and right-of-use assets

At 31 December 2021	Leasehold improve-ments MNT'000	Premises MNT'000	Vehicles MNT'000	Office furniture MNT'000	Computer equipment and others MNT'000	Construc-tion in progress MNT'000	Right-of-use assets MNT'000	Total MNT'000
At cost or revaluation								
At 1 January 2021	**6,537,839**	**35,075,086**	**4,565,707**	**5,378,802**	**42,825,902**	**545,326**	**12,825,981**	**107,754,643**
Additions	94,683	163,324	766,900	268,283	2,271,569	1,816,221	5,393,450	10,774,430
Transfer from foreclosed properties (Note 17)	-	981,544	-	-	-	-	-	981,544
Write-off	(5,382,369)	-	-	(229,467)	(301,293)	-	-	(5,913,129)
Disposals	-	-	-	(39,147)	(21,250)	-	-	(60,397)
Gain on revaluation of premises (Note 27)	-	2,997,142	-	-	-	-	-	2,997,142
Revaluation deficit (Note 10)	-	(868,801)	-	-	-	-	-	(868,801)
Revaluation	-	(2,335,341)	-	-	-	-	-	(2,335,341)
Reclassification	-	490,000	-	20,851	-	(510,851)	-	-
Transfer to property held for sale (Note 18)	-	-	(658,647)	-	-	-	-	(658,647)
At 31 December 2021	**1,250,153**	**36,502,954**	**4,673,960**	**5,399,322**	**44,774,928**	**1,850,696**	**18,219,431**	**112,671,444**
Accumulated depreciation								
At 1 January 2021	**5,975,869**	**1,666,610**	**1,820,603**	**2,895,867**	**23,895,889**	**-**	**7,940,387**	**44,195,225**
Charge for the year (Note 10)	430,347	668,731	443,116	495,160	4,302,516	-	3,711,714	10,051,584
Write-off	(5,382,369)	-	-	(159,712)	(290,950)	-	-	(5,833,031)
Disposals	-	-	-	(33,982)	(21,250)	-	-	(55,232)
Revaluation	-	(2,335,341)	-	-	-	-	-	(2,335,341)
Transfer to property held for sale (Note 18)	-	-	(565,772)	-	-	-	-	(565,772)
At 31 December 2021	**1,023,847**	**-**	**1,697,947**	**3,197,333**	**27,886,205**	**-**	**11,652,101**	**45,457,433**
Net Carrying amount at 31 December 2021	**226,306**	**36,502,954**	**2,976,013**	**2,201,989**	**16,888,723**	**1,850,696**	**6,567,330**	**67,214,011**

19. Property, equipment and right-of-use assets (Contd.)

	Leasehold improve-ments MNT'000	Premises MNT'000	Vehicles MNT'000	Office furniture MNT'000	Computer equipment and others MNT'000	Construc-tion in progress MNT'000	Right-of-use assets MNT'000	Total MNT'000
At 31 December 2020 (Restated)								
At cost or revaluation								
At 1 January 2020 (Restated)	**6,173,667**	**34,693,891**	**4,020,308**	**5,902,569**	**42,554,974**	**918,872**	**9,594,890**	**103,859,171**
Additions	275,506	179,488	749,581	36,694	1,408,553	81,914	3,898,174	6,629,910
Transfer from property held for sale (Note 18)	-	359,206	-	-	-	-	-	359,206
Write-off	-	(35,678)	-	(527,488)	(941,502)	-	-	(1,504,668)
Disposals	-	(121,821)	(431,910)	(32,973)	(27,455)	-	-	(614,159)
Modification of lease terms	-	-	-	-	-	-	(667,083)	(667,083)
Reclassification	88,666	-	227,728	-	53,523	(369,917)	-	-
Reclassification to other assets	-	-	-	-	(222,191)	(85,543)	-	(307,734)
At 31 December 2020 (Restated)	**6,537,839**	**35,075,086**	**4,565,707**	**5,378,802**	**42,825,902**	**545,326**	**12,825,981**	**107,754,643**
Accumulated depreciation								
At 1 January 2020 (Restated)	5,081,337	923,614	1,623,601	2,913,540	20,588,253	-	4,154,781	35,285,126
Charge for the year (Note 10)	894,532	667,951	433,716	521,586	4,266,647	-	3,785,606	10,570,038
Transfer from property held for sale (Note 18)	-	81,346	-	-	-	-	-	81,346
Write-off	-	(2,775)	-	(506,534)	(936,315)	-	-	(1,445,624)
Disposals	-	(3,526)	(236,714)	(32,725)	(22,696)	-	-	(295,661)
At 31 December 2020 (Restated)	**5,975,869**	**1,666,610**	**1,820,603**	**2,895,867**	**23,895,889**	**-**	**7,940,387**	**44,195,225**
Net Carrying amount at 31 December 2020 (Restated)	**561,970**	**33,408,476**	**2,745,104**	**2,482,935**	**18,930,013**	**545,326**	**4,885,594**	**63,559,418**

19. Property, equipment and right-of-use assets (Contd.)

19.1 Revaluation of premises

The premises have been revalued as at 31 December 2021 by independent appraisers not related to the Bank. The appraisers are members of the Mongolian Institute of Certified Appraisers and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's length terms for similar properties.

Had the premises been measured on a historical cost basis, their carrying amount would have been MNT 19.3 billion as at 31 December 2021 (2020: MNT 18.2 billion).

19.2 Gross carrying amount of fully depreciated property and equipment

	2021 MNT'000	2020 MNT'000
Computer equipment and others	13,577,302	12,145,828
Office furniture	598,030	379,723
Vehicles	62,712	30,988
	14,238,044	**12,556,539**

19.3 Right-of-use assets and lease liabilities

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

	2021 MNT'000	2020 MNT'000
Interest on lease liabilities (Note 4)	555,674	321,453
Depreciation charge of right-of-use assets (Note 10)	3,711,714	3,785,606
Expense relating to short-term leases (Note 10)	79,147	10,199
Expense relating to lease of low-value assets, excluding short-term leases of low-value assets	890,732	1,084,979
	5,237,267	**5,202,237**

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 extension and/or termination options in a number of leases for office and branch spaces. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations.

The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. The potential exposures to these future lease payments for (i) extension options in which the Bank is not reasonably certain to exercise and (ii) termination options in which the Bank is not reasonably certain not to exercise are summarised below:

	Lease liabilities recognised as at 31 December 2021 MNT'000	Potential future lease payments not included in lease liabilities (undiscounted) MNT'000	Lease liabilities recognised as at 31 December 2020 MNT'000	Potential future lease payments not included in lease liabilities (undiscounted) MNT'000
Branches	5,098,228	5,831,904	2,524,837	2,930,954
Office space	324,299	356,613	651,754	754,770

In addition, the Bank reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2021, there is no such triggering event.

Lease committments

As at 31 December 2021, the Bank has not entered into new leases that have not yet commenced.

20. Intangible assets

	Patents and rights MNT'000	Computer software MNT'000	Software under development MNT'000	Total MNT'000
At 31 December 2021				
At cost				
At 1 January 2021	10,594,443	11,976,888	5,156,387	27,727,718
Additions	402,012	694,775	2,559,788	3,656,575
Write-off	(24,184)	-	-	(24,184)
Reclassification	-	1,105,113	(1,105,113)	-
At 31 December 2021	**10,972,271**	**13,776,776**	**6,611,062**	**31,360,109**
Accumulated amortisation				
At 1 January 2021	4,907,418	8,113,767	-	13,021,185
Charge for the year (Note 10)	1,204,032	1,706,555	-	2,910,587
Write-off	(24,184)	-	-	(24,184)
At 31 December 2021	6,087,266	9,820,322	-	15,907,588
Net carrying amount	**4,885,005**	**3,956,454**	**6,611,062**	**15,452,521**
At 31 December 2020 (Restated)				
At cost				
At 1 January 2020 (Restated)	10,298,732	12,352,471	1,007,733	23,658,936
Additions	869,545	261,021	4,208,373	5,338,939
Write-off	(626,699)	(643,458)	-	(1,270,157)
Reclassification	52,865	6,854	(59,719)	-
At 31 December 2020 (Restated)	**10,594,443**	**11,976,888**	**5,156,387**	**27,727,718**
Accumulated amortisation				
At 1 January 2020 (Restated)	4,512,889	7,060,441	-	11,573,330
Charge for the year (Note 10)	1,003,244	1,668,368	-	2,671,612
Write-off	(608,715)	(615,042)	-	(1,223,757)
At 31 December 2020 (Restated)	**4,907,418**	**8,113,767**	**-**	**13,021,185**
Net carrying amount (Restated)	**5,687,025**	**3,863,121**	**5,156,387**	**14,706,533**

21. Investment property

	2021 MNT'000	2020 MNT'000
Beginning of the year	21,260,252	31,919,060
Less: Transfer to foreclosed properties (Note 17)	(21,260,252)	(7,478,873)
Less: Sold during the year	-	(94,000)
Changes in the fair value of investment property (Note 8)	-	(3,085,935)
End of the year	**-**	**21,260,252**

22. Financial liabilities at amortised cost

22.1 Due to banks

	2021 MNT'000	2020 MNT'000
Current accounts from banks and financial institutions	2,144,398	290,161
Term deposits from banks and financial institutions	547,008	1,648,748
	2,691,406	**1,938,909**

22.2 Due to customers

	2021 MNT'000	2020 (Restated) MNT'000
Government deposits		
- Current accounts	79,305,483	40,584,622
- Demand deposits	689,196	1,683,001
- Time deposits	3,822,453	42,135,371
Private sector deposits		
- Current accounts	249,733,532	280,177,126
- Demand deposits	22,572,842	27,530,740
- Time deposits	72,081,422	58,623,729
Individual deposits		
- Current accounts	132,328,164	75,575,289
- Demand deposits	200,033,760	244,910,580
- Time deposits	1,491,532,879	1,254,250,480
	2,252,099,731	**2,025,470,938**

Included in 'Due to customers' are deposits of MNT 16,030 million (2020: MNT 10,866 million) held as collateral for irrevocable commitments under financial guarantees provided by the Bank as at 31 December 2021.

22. Financial liabilities at amortised cost (Contd.)

22.3 Borrowed funds

	2021 MNT'000	2020 (Restated) MNT'000
Borrowed funds from foreign financial institutions		
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (“FMO”)	137,746,621	183,178,291
Asian Development Bank (“ADB”)	72,870,465	84,819,632
Green Climate Fund ("GCF")	58,416,437	58,533,339
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	56,459,834	56,251,255
Societe De Promotion Et De Participation Pour La Cooperation Economique S.A ("PROPARCO")	42,630,889	42,351,388
International Finance Corporation ("IFC")	42,532,559	42,314,141
INCOFIN CVSO	38,241,316	57,316,516
OPEC Fund for International Development ("OFID")	35,568,816	70,986,743
SIFEM AG	28,211,830	28,101,009
Global Climate Partnership Fund S.A., SICAV-SIF	14,353,624	-
International Bank For Economic Cooperation ("IBEC")	14,222,142	28,388,821
Raisin Bank AG	14,219,154	14,180,490
FINNISH FUND FOR INDUSTRIAL COOPERATION LTD	14,093,890	14,034,441
International Investment Bank (“IIB”)	10,832,363	14,373,436
Belgian Investment Company for Developing countries NV/SA-BIO	7,233,190	12,044,466
INCOFIN CVSO CVBA-SO, a Belgian investment company	7,125,392	-
Baobab Securities Limited	5,882,735	5,866,749
Symbiotics Sicav (Lux)	5,684,341	32,913,749
ResponsAbility Global Micro and SME Finance Fund	5,593,964	-
European Bank for Reconstruction and Development ("EBRD")	4,591,221	3,212,250
ResponsAbility SICAV (Lux) Micro and SME Finance Debt Fund	3,442,428	-
ResponsAbility SICAV (Lux) Financial Inclusion Fund	3,155,559	-
DWM Income Funds S.C.A. - SICAV SIF	2,934,519	15,872,035
ResponsAbility SICAV (Lux) Micro and SME Finance Leaders	2,151,518	-
ACTIAM FINANCIAL INCLUSION FUND	-	17,139,460
Developing World Markets (“DWM”)	-	13,124,625
Micro, Small and Medium Enterprises Bonds S.A.	-	15,202,159
Tenger Financial Group	-	12,579,408
BlueOrchard Microfinace Fund	-	7,310,847
INCOFIN CVBA, a Belgian investment company	-	5,749,995
MicroVest EDF Master Fund LTD	-	4,413,891
Bank Im Bistum Essen EG (“BiB”)	-	4,333,460
Symbiotics SICAV (Lux.) - Global Microfinance Fund	-	2,877,900
Symbiotics SEB IV Microfinance Fund	-	2,785,154
Overseas Private Investment Corporation	-	2,441,710
Symbiotics Sicav (Lux)-LGT Small Business Loans Impact Fund	-	1,423,215
Total borrowed funds from foreign financial institutions	**628,194,807**	**854,120,575**
Borrowed funds from government organisations		
Bank of Mongolia	119,626,604	20,113,527
Ministry of Finance	9,642,608	11,275,053
Ministry of Finance/ Japan Bank for International Cooperation	8,350,990	9,261,197
Asian Development Bank	1,550,789	2,150,834
SME Development Fund	1,394,286	3,473,616
International Fund for Agriculture Development	15,653	45,721
Government of Mongolia	-	37,145,340
Total borrowed funds from government organisations	**140,580,930**	**83,465,288**
Total borrowed funds	**768,775,737**	**937,585,863**

22. Financial liabilities at amortised cost (Contd.)

22.3 Borrowed funds (Contd.)

All borrowed funds from government organisations are related to the GoM.

The Bank did not have any defaults on principal or interest payments with regard to all liabilities as at 31 December 2021 and 31 December 2020.

As per their debt agreement, the funds raised from foreign lenders require compliance with certain financial covenants, which can be grouped in the following categories:

- capital related ratios (risk weighted capital adequacy ratio for both tier 1 and total capital)
- financial risks related ratios (such as maturity mismatches, currency mismatches, single currency and aggregate foreign currency exchange risk ratio, negative liquidity gap ratio, aggregate interest rate risk ratio and interest rate risk ratio);
- credit related ratios (such as portfolio at risk, open loan exposure ratio, write off ratio, related party lending ratio, single largest borrowers and aggregate of large exposures ratio);
- other financial ratios (deposits to loans ratio, interest coverage ratio, shareholding in single entity, fixed assets to total assets, fixed assets plus equity investments ratio, overhead ratio etc.).

In case of non-compliance to covenants, i.e., in the event of default and such event of default is subsisting, the borrowing becomes immediately payable on demand. For this reason, continuous monitoring of debt covenants is carried out by relevant departments and officers (Financial Management Departement, Risk Management Division and Credit Administration Department direct reporting untis of Chief Finance Officer and Chief Risk Officer). In case of anticipated or noted non-compliance with certain covenants, appropriate pro-active communication to lender as well as issue mitigating action is taken by management. The issue of covenant non-compliance is resolved through self-remedy based on mitigating actions or through acceptance of the breaches based either on request for temporary waiver or based on amendment to agreement.

As of 31 December 2021, the Bank is compliant with their contractual debt covenants imposed by their lenders, taking into account the waivers on threshold breaches of certain asset quality metrics, for which the calculation basis considers the Bank's restructured asset portfolio. In order to alleviate pandemic driven economic pressure, the GoM and the BoM had been implementing various relief programs beginning from April 2020 to throughout 2021 and as a result the 'restructured loan' balances escalated for all banking sector. The Bank obtained necessary waivers and continues to cooperate with the lenders including commitment of additional information reporting requirements. Furthermore there were 17 funds inherited from merger of XacLeasing on the Bank balance sheet and as at the end of reporting period the Bank is fully compliant with any associated debt covenants of these funds' agreements

22.4 Debt securities issued

	2021 MNT'000	2020 Restated MNT'000
Debt securities issued	8,403,663	10,618,643

Debt securities are unsecured and were issued by XacLeasing LLC to an individual in Jan 2020 with a maturity of 2 years and with an interest rate of 6.5% p.a. Debt securities were subsequently matured and fully repaid in Jan 2022.

23. Deferred grants

	2021 MNT'000	2020 MNT'000
Micro Energy Credit Corporation ("MEC")	3,408,237	3,412,724
GCF Proceeds EECLP	2,754,326	2,803,950
Green Climate Fund Grant on MSME program	815,768	862,228
Green Climate Fund Proceeds	726,607	775,673
GCF Grant on ESIMD-RS	602,072	712,320
GCF Grant on Mini-grid PPF	490,455	916,269
GCF Grant on NDA RS-2	322,326	712,321
GCF Grant on MGFC-PPF	123,451	123,481
Total deferred grants	**9,243,242**	**10,318,966**

Movements in deferred grants are presented as follows:

	2021 MNT'000	2020 MNT'000
Balance at beginning of the year	10,318,966	8,047,821
Received during the year	331,540	3,445,874
Amortisation for the year	(1,407,264)	(1,174,729)
Balance at end of the year	**9,243,242**	**10,318,966**

Deferred grants received from MEC are carbon offset compensations which the Bank is obligated to use for future green projects and programs.

24. Lease liabilities

	2021 MNT'000	2020 MNT'000
Less than 12 month	2,235,225	1,645,721
1 to 2 years	1,620,662	706,137
2 to 3 years	940,095	484,012
3 to 4 years	539,978	204,376
4 to 5 years	86,567	136,345
	5,422,527	**3,176,591**

25. Other liabilities

	2021 MNT'000	2020 (Restated) MNT'000
Other financial liabilities		
Clearing settlement	12,842,982	10,384,682
Liabilities for loans sold to SFC with recourse (Note 16.3)	8,375,764	-
Other financial liabilities	14,468,588	23,145,473
Impairment allowance on off-balance exposures (Note 29)	354,895	490,254
	36,042,229	**34,020,409**
Other non-financial liabilities		
Accrued salary costs and bonuses	12,606,944	6,617,250
VAT payables	14,005,654	13,874,121
Taxes payable other than on income tax	264,840	144,104
Other non-financial liabilities	1,330,787	3,644,119
	28,208,225	**24,279,594**
Total other liabilities	**64,250,454**	**58,300,003**

Impairment allowance on off-balance exposures

	2021 MNT'000	2020 MNT'000
At beginning of the year	490,254	232,672
(Reversal)/ charge for the year (Note 9)	(135,359)	257,582
At end of the year	**354,895**	**490,254**

26. Ordinary shares

	Number of shares authorised, issued and fully paid		Amount	
		(Restated)	31 December 2021	31 December 2020 (Restated)
	31 December 2021	31 December 2020	MNT'000	MNT'000
Total ordinary shares	1,000,000,000	586,259,793	100,000,000	58,625,979

As at 31 December 2021, the Bank has 1,000,000,000 issued shares (2020 (restated): 586,259,793) at a par value of MNT 100.00 (2020 (restated): MNT 100).

On 30 March 2021, the Board of Directors approved a share split of 27.1906-for-1, resulting that number of ordinary shares increased by 533,073,877 from 20,353,656 to 553,427,533. The par value of its ordinary shares was reduced accordingly from MNT 2,719.06 to MNT 100.

On 15 October 2021, BoM has approved the request of the Bank to merge with its fellow subsidiary XacLeasing, resulting that number of ordinary shares increased by 32,832,260 from 553,427,533 to 586,259,793 at par value of MNT 100 each, equal to ordinary shares of XacLeasing (note 2.5).

On 22 November 2021, BoM has approved the request of the Bank to declare stock dividend from the Bank's retained earnings, resulting that number of ordinary shares increased by 413,740,207 from 586,259,793 to 1,000,000,000. Net reduction in retained earnings was MNT 41,374,021 thousand including related tax effect.

Share split, the merger and stock dividend have restated number of ordinary shares and amount of oridinary shares as if it had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual dates of the transactions.

The table below shows movements of number of ordinary shares and ordinary shares in 2021 and 2020:

	Number of ordinary shares	Ordinary shares MNT'000
At 1 January 2021 (Restated)	**586,259,793**	**58,625,979**
Issuance of new shares through stock dividend	413,740,207	41,374,021
At 31 December 2021	**1,000,000,000**	**100,000,000**
At 31 December 2020 (Audited)	**20,353,656**	**55,342,753**
Par value decrease	533,073,877	-
Issuance of new shares as a result of the Merger	32,832,260	3,283,226
At 1 January 2021 (Restated)	**586,259,793**	**58,625,979**

The Bank has one class of shares and each share carries one voting right. The dividend proposed by the board of directors is subject to approval by the shareholder in the annual general meeting.

27. Reserves

	Regulatory reserve MNT'000	Revaluation reserve for premises MNT'000	Investment revaluation reserve MNT'000	Other reserves* MNT'000	Total reserves MNT'000
At 1 January 2021 (Restated)*	**28,817,973**	**15,531,471**	**2,063,020**	**11,439,408**	**57,851,872**
Unrealised gain	-	-	2,653	-	2,653
Gain on revaluation of premises (Note 19)	-	2,997,142	-	-	2,997,142
Transfer to regulatory reserve	23,750,746	-	-	-	23,750,746
At 31 December 2021	**52,568,719**	**18,528,613**	**2,065,673**	**11,439,408**	**84,602,413**
At 1 January 2020 (Restated)*	**17,604,136**	**15,624,549**	**1,893,589**	**11,439,408**	**46,561,682**
Unrealised gain	-	-	169,431	-	169,431
Realised revaluation reserve	-	(93,078)	-	-	(93,078)
Transfer to regulatory reserve	11,213,837	-	-	-	11,213,837
At 31 December 2020 (Restated)*	**28,817,973**	**15,531,471**	**2,063,020**	**11,439,408**	**57,851,872**

*At the date of this report, no policy is formalised by the Bank as to the purpose of these reserves.

Regulatory reserve

As of 31 December 2021, the regulatory reserve was MNT 52,569 million (31 December 2020: MNT 28,818 million) which consists of loan loss reserve of MNT 19,813 million (31 December 2020: MNT 19,665 million) and foreclosed asset impairment reserve of MNT 32,756 million (31 December 2020: MNT 9,153 million). Regulatory reserve represents additional provision under BoM provisioning requirements on loans and foreclosed assets.

28. Fair value of financial instruments

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	Recurring fair value measurement			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2021	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
Financial assets at FVTPL				
Derivative financial instruments				
Foreign currency swap contracts	-	67,308	-	67,308
Interest rate swap	-	49,155,802	-	49,155,802
Senior RMBS	-	-	32,707,952	32,707,952
Junior RMBS	-	-	42,554,601	42,554,601
SFC-Junior ABS	-	-	1,026,400	1,026,400
Loans and advances to customers	-	90,000,608	-	90,000,608
	-	**139,223,718**	**76,288,953**	**215,512,671**
Financial investments at FVTOCI				
Unquoted equities	-	-	455,988	455,988
Quoted equities	3,157,209	-	-	3,157,209
	3,157,209	**-**	**455,988**	**3,613,197**
Financial liabilities at FVTPL				
Derivative financial instruments				
Interest rate swap	-	371,050	-	371,050
	-	**371,050**	**-**	**371,050**
Non-financial assets				
Revalued properties	-	-	36,502,954	36,502,954
	-	**-**	**36,502,954**	**36,502,954**
At 31 December 2020 (Restated)				
Financial assets at FVTPL				
Derivative financial instruments				
Foreign currency swap contracts	-	12,931,412	-	12,931,412
Interest rate swap	-	62,752,608	-	62,752,608
Senior RMBS	-	-	4,066,916	4,066,916
Junior RMBS	-	-	37,248,810	37,248,810
Closed ended investment fund	-	-	1,040,718	1,040,718
Loans and advances to customers	-	62,983,322	-	62,983,322
	-	**138,667,342**	**42,356,444**	**181,023,786**
Financial investments at FVTOCI				
Unquoted equities	-	-	460,876	460,876
Quoted equities	3,148,784	-	-	3,148,784
	3,148,784	**-**	**460,876**	**3,609,660**
Non-financial assets				
Revalued properties	-	-	33,408,476	33,408,476
Investment properties	-	-	21,260,252	21,260,252
	-	**-**	**54,668,728**	**54,668,728**

28. Fair value of financial instruments (Contd.)

Transfers between level 1 and 2

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

The following table summarises information about how the fair values of financial assets and financial liabilities (both recurring and non-recurring) which are categorised as Level 2 and Level 3 are determined:

Financial assets/ financial liabilities	Fair value as at 31/12/2021 MNT'000	Fair value as at 31/12/2020 (Restated) MNT'000	Fair value hierarchy	Valuation technique(s)	Key input(s)
1) Foreign currency swap contracts	67,308	12,931,412	Level 2	Market value, Interest rate parity	Repo rate, government bonds yield and spot exchange rate
2) Interest rate swap	48,784,752	62,752,608	Level 2	Market value	Libor rate, policy rate and spot exchange rate
3) Senior and Junior RMBS and Junior ABS	76,288,953	41,315,726	Level 3	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments
4) Unquoted equities	455,988	460,876	Level 3	Net assets value	Market share price, transaction price
5) Closed ended investment fund	-	1,040,718	Level 3	Net assets value	Market price of proxy real estate properties
6) Loans and advances to customers	90,000,608	62,983,322	Level 2	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments
7) Revalued properties	36,502,954	33,408,476	Level 3	Depreciated replacement cost, market comparison	Market rental prices with appropriate adjustments
8) Investment properties	-	21,260,252	Level 3	Depreciated replacement cost, market comparison	Market rental prices with appropriate adjustments

Financial assets and liabilities are categorised under level 2 where the Bank determined the fair value based on valuation technique (eg. discounted cash flow model) using market observable inputs.

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:

28. Fair value of financial instruments (Contd.)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, time deposits and variable rate financial instruments.

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 other than those with carrying amounts that approximate to fair value as at 31 December 2021:

	Note	2021 Carrying amount MNT'000	2021 Fair value MNT'000	2020 Carrying amount (Restated) MNT'000	2020 Fair value (Restated) MNT'000
Financial assets					
Loans and advances to customers	**16.3**	1,701,557,761	1,710,640,950	1,364,714,782	1,366,209,162
Financial liabilities					
Borrowed funds	**22.3**	768,775,737	768,338,516	937,585,863	936,621,576
Debt securities issued	**22.4**	8,403,663	8,403,663	10,618,643	10,290,464
		777,179,400	**776,742,179**	**948,204,506**	**946,912,040**

28. Fair value of financial instruments (Contd.)

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

	Note	2021 MNT'000	2020 Restated MNT'000
Senior RMBS, at fair value			
At beginning of the year		4,066,916	-
Addition		37,898,000	34,688,400
Sold		(9,769,000)	(30,829,600)
Interest accrued	**6**	665,952	365,432
Interest received		(68,034)	(83,259)
Change in fair value	**6**	(85,882)	(74,057)
At end of the year		**32,707,952**	**4,066,916**
Junior RMBS, at fair value			
At beginning of the year		37,248,810	33,850,997
Addition		4,211,201	3,854,700
Interest accrued	**7**	4,010,813	3,797,026
Interest received		(2,654,271)	(3,736,723)
Change in fair value	**7**	(261,952)	(517,190)
At end of the year		**42,554,601**	**37,248,810**
SFC-Junior ABS, at fair value			
At beginning of the year		-	-
Addition		1,037,200	-
Interest accrued	**7**	32,395	-
Interest received		(20,517)	-
Change in fair value	**7**	(22,678)	-
At end of the year		**1,026,400**	-
Closed ended investment fund, at fair value			
At beginning of the year		1,040,718	1,065,472
Sold		(1,040,718)	-
Change in fair value	**7**	-	(24,754)
At end of the year		**-**	**1,040,718**
Unquoted investments, at fair value			
At beginning of the year		460,876	224,439
Change in fair value		(4,888)	236,437
At end of the year	**15**	**455,988**	**460,876**

28. Fair value of financial instruments (Contd.)

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

	Note	2021 MNT'000	2020 Restated MNT'000
Revalued properties, at fair value			
At beginning of the year		33,408,476	33,770,277
Additions and reclassifications	**19**	653,324	179,488
Transfer from foreclosed properties	**19**	981,544	-
Transfer from property held for sale		-	277,860
Depreciation charge for the period	**19**	(668,731)	(667,951)
Write-off		-	(32,903)
Disposals		-	(118,295)
Revaluation	**19**	2,128,341	-
At end of the year		**36,502,954**	**33,408,476**
Investment property, at fair value			
At beginning of the year		21,260,252	31,919,060
Transfer to foreclosed properties	**21**	(21,260,252)	(7,478,873)
Sold during the period /year		-	(94,000)
Changes in the fair value of investment property	**8**	-	(3,085,935)
At end of the year		**-**	**21,260,252**

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

30 December 2021	Fair value MNT'000	Reasonable change	Sensitivity of the input to fair value	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
Junior RMBS, at fair value	42,554,601	1%	+/- 425,546	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments	MNT 100,000
Senior RMBS, at fair value	32,707,952	1%	+/- 327,080	Discounted cash flows	Future cash flows, and market interest rate of instruments	MNT 100,000
SFC-Junior ABS	1,026,400	1%	+/- 10,264	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments	MNT 100,000
Unquoted investments	455,988	10%	+/- 45,599	Net assets value	Market share price, transaction price	MNT 1,000-MNT 8,176,139
Revalued properties	36,502,954	10%	+/- 3,650,295	Depreciated replacement cost, market comparison	Market rental prices with appropriate adjustments	MNT 25,240-MNT 6,245,455

29. Contingent liabilities and commitments

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

The nominal values of such commitments are listed below.

	2021 MNT'000	2020 MNT'000
Contingent liabilities		
Performance and tender guarantees	26,883,042	37,928,105
Financial guarantees	17,595,901	12,583,996
Letters of credit	20,203,463	18,466,998
	64,682,406	68,979,099
Commitments		
Undrawn commitments to lend	98,328,464	86,561,836
Total	**163,010,870**	**155,540,935**

Contingent liabilities

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

Undrawn commitments to lend

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

The potential credit loss is less than the total unused commitments since commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Analysis of the contingent liabilities and undrawn commitments subject to ECL loss allowance is given below:

As at 31 December 2021	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
As at 31 December 2020	155,462,055	56,067	22,813	155,540,935
New facilities granted	100,202,201	-	-	100,202,201
Changes in gross carrying amount				
- Transfer from stage 1	(1,352,832)	1,322,658	30,174	-
- Transfer from stage 2	25,059	(30,835)	5,776	-
- Transfer from stage 3	1,878	-	(1,878)	-
Utilisation or expiry of facilities	(92,666,440)	(45,451)	(20,375)	(92,732,266)
Gross outstanding exposure as at 31 December 2021	161,671,921	1,302,439	36,510	163,010,870
Loss allowance				
As at 31 December 2020	482,656	259	7,339	490,254
New facilities granted	209,490	-	-	209,490
Changes in gross carrying amount				
- Transfer from stage 1	(7,042)	3,053	3,989	-
- Transfer from stage 2	28	(35)	7	-
- Transfer from stage 3	543	-	(543)	-
Utilisation or expiry of facilities	(238,642)	11,352	(5,845)	(233,135)
Impact on ECL on transfers between stages and changes to inputs	(114,855)	(3,752)	6,893	(111,714)
Gross outstanding exposure as at 31 December 2021	332,178	10,877	11,840	354,895

29. Contingent liabilities and commitments (Contd.)

Analysis of the contingent liabilities and undrawn commitments subject to ECL loss allowance is given below (Contd.):

As at 31 December 2020	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
As at 31 December 2019	121,820,020	277,163	1,256	122,098,439
New facilities granted	68,734,371	-	-	68,734,371
Changes in gross carrying amount				
- Transfer from stage 1	(78,330)	56,067	22,263	-
- Transfer from stage 2	155,548	(156,093)	545	-
- Transfer from stage 3	2,891	-	(2,891)	-
Utilisation or expiry of facilities	(35,172,445)	(121,070)	1,640	(35,291,875)
Gross carrying amount as at 31 December 2020	**155,462,055**	**56,067**	**22,813**	**155,540,935**
Loss allowance				
As at 31 December 2019	230,642	1,607	423	232,672
New facilities granted	181,018	-	-	181,018
Changes in gross carrying amount				
- Transfer from stage 1	(406)	234	172	-
- Transfer from stage 2	701	(701)	-	-
- Transfer from stage 3	189	-	(189)	-
Utilisation or expiry of facilities	(38,997)	(906)	(233)	(40,136)
Impact on ECL on transfers between stages and changes to inputs	109,509	25	7,166	116,700
Gross carrying amount as at 31 December 2020	**482,656**	**259**	**7,339**	**490,254**

Other commitments

	2021 MNT'000	**2020 MNT'000**
Approved and contracted for:		
Intangible assets	2,711,974	5,762,202
Property and equipment	780,789	756,583
Consulting services	846,056	553,149
Advertisement	193,977	93,250
Consumables and other inventories	198,408	97,668
Other services	37,450	49,040
	4,768,654	**7,311,892**

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claim may have on its financial position.

Foreclosed properties
In 2017, the Bank recovered MNT 11.6 billion through collateral repossession from a borrower who had MNT 14.4 billion in bad loan. This settlement arrangement came into effect as part of a court order facilitating the bad loan resolution as a whole and was executed under a title deed transfer agreement with the client.

However after number of civil cases, on 6 January 2022, the borrower succeeded in rescission of the aforementioned court order in 2017.

Subsequently, a number of court proceedings were made by either the Bank or the borrower at each levels of judicial system, all the way to the Supreme Court whose rejection to hearing meant the case is currently back to the district court. Therefore, management assessed that the possibility of any outflow in the settlement of the lawsuit is remote.

At 31 December 2021 and 2020, there were no major litigation cases involving the Bank other than above.

30. 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 32.3 Liquidity risk and funding management for the Bank's contractual undiscounted repayment obligations.

At 31 December 2021	Less than 12 months 2021 MNT'000	More than 12 months 2021 MNT'000	Total 2021 MNT'000
Financial assets			
Cash and balances with BoM	248,313,381	-	248,313,381
Mandatory cash balances with BoM	-	214,231,304	214,231,304
Financial instruments at FVTPL			
Derivative financial instruments	23,482,980	25,740,130	49,223,110
Securities	-	76,288,953	76,288,953
Loans and advances to customers	1,572,873	88,427,735	90,000,608
Financial assets at FVTOCI			
Equity instruments	-	3,613,197	3,613,197
Financial assets at amortised cost			
Due from banks	42,487,278	-	42,487,278
Debt instruments	926,714,515	-	926,714,515
Loans and advances to customers	669,184,483	1,032,373,278	1,701,557,761
Other assets	3,763,475	2,928,775	6,692,250
	1,915,518,985	**1,443,603,372**	**3,359,122,357**
Non financial assets			
Other assets	53,806,265	94,439	53,900,704
Properties held for sale	133,594	-	133,594
Property and equipment	-	67,214,011	67,214,011
Intangible assets	-	15,452,521	15,452,521
Deferred tax asset	-	4,135,441	4,135,441
	53,939,859	**86,896,412**	**140,836,271**
Total	**1,969,458,844**	**1,530,499,784**	**3,499,958,628**
Financial liabilities			
Financial instruments at FVTPL			
Derivative financial instruments	100,128	270,922	371,050
Financial liabilities at amortised cost			
Due to banks	2,691,406	-	2,691,406
Due to customers	1,581,419,548	670,680,183	2,252,099,731
Borrowed funds	443,014,240	325,761,497	768,775,737
Debt securities issued	8,403,663	-	8,403,663
Lease liabilities	2,235,226	3,187,301	5,422,527
Other liabilities	28,816,654	7,225,575	36,042,229
	2,066,680,865	**1,007,125,478**	**3,073,806,343**
Non financial liabilities			
Deferred grants	9,243,242	-	9,243,242
Other liabilities	25,914,525	2,293,700	28,208,225
Income tax payable	4,705,974	-	4,705,974
	39,863,741	**2,293,700**	**42,157,441**
Total	**2,106,544,606**	**1,009,419,178**	**3,115,963,784**
Net position	**(137,085,762)**	**521,080,606**	**383,994,844**

30. Maturity analysis of assets and liabilities (Contd.)

At 31 December 2020 (Restated)	Less than 12 months 2020 MNT'000	More than 12 months 2020 MNT'000	Total 2020 MNT'000
Financial assets			
Cash and balances with BoM	179,504,648	-	179,504,648
Mandatory cash balances with BoM	-	186,372,668	186,372,668
Financial instruments at FVTPL			
Derivative financial instruments	22,720,654	52,963,366	75,684,020
Securities	-	42,356,444	42,356,444
Loans and advances to customers	1,834,026	61,149,296	62,983,322
Financial assets at FVTOCI			
Equity instruments	-	3,609,660	3,609,660
Financial assets at amortised cost			
Due from banks	82,528,044	-	82,528,044
Debt instruments	1,207,367,188	-	1,207,367,188
Loans and advances to customers	625,222,630	739,492,152	1,364,714,782
Other assets	6,964,703	6,395,055	13,359,758
	2,126,141,893	**1,092,338,641**	**3,218,480,534**
Non financial assets			
Other assets	32,598,262	12,239,728	44,837,990
Properties held for sale	3,033,923	-	3,033,923
Property and equipment	-	63,559,418	63,559,418
Intangible assets	-	14,706,533	14,706,533
Investment property	-	21,260,252	21,260,252
Deferred tax asset	-	3,534,627	3,534,627
	35,632,185	**115,300,558**	**150,932,743**
Total	**2,161,774,078**	**1,207,639,199**	**3,369,413,277**
Financial liabilities			
Financial liabilities at amortised cost			
Due to banks	1,938,909	-	1,938,909
Due to customers	1,508,256,293	517,214,645	2,025,470,938
Borrowed funds	443,686,480	493,899,383	937,585,863
Debt securities issued	10,618,643	-	10,618,643
Lease liabilities	1,645,721	1,530,870	3,176,591
Other liabilities	12,483,427	21,536,982	34,020,409
	1,978,629,473	**1,034,181,880**	**3,012,811,353**
Non financial liabilities			
Deferred grants	10,318,966	-	10,318,966
Other liabilities	8,243,532	16,036,062	24,279,594
Income tax payable	8,771,190	-	8,771,190
	27,333,688	**16,036,062**	**43,369,750**
Total	**2,005,963,161**	**1,050,217,942**	**3,056,181,103**
Net position	**155,810,917**	**157,421,257**	**313,232,174**

31. Related party disclosures

The Bank is controlled by TenGer Financial Group LLC. TenGer Financial Group LLC is owned by the shareholders detailed in Note 1 (Corporate Information).

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions.

As at 31 December 2021 and 2020, the Bank had the following balances and transactions with related parties.

	2021	**2020 (Restated)**
	MNT'000	**MNT'000**
a) Loans and advances to related companies:		
Shareholders of holding company	8,217	-
	8,217	**-**
Members of the Board of Directors and key management personnel of the Bank	1,311,223	1,344,573
Other related parties	230,562	35,455
	1,550,002	**1,380,028**

The loans and advances to related parties are secured, bear interest rates from 6.0% to 20.4% (2020: 8.0% to 20.4%) per annum and are repayable within one to 20 years. The interest income received from such loans during the financial year amounted to MNT 116 million (2020: MNT 143 million).

	2021	**2020 (Restated)**
	MNT'000	**MNT'000**
b) Deposits from related companies:		
Holding company	3,072,981	10,433,078
Fellow subsidiaries	924,705	1,208,962
Shareholders of holding company	1,286	1,524
	3,998,972	**11,643,564**
Members of the Board of Directors and key management personnel of the Bank	4,160,100	4,079,654
Other related parties	4,303,400	7,718,377
	12,462,472	**23,441,595**

The deposits from the above related parties bear interest rates from 0% to 10.8% (2020: 0% to 12.6%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT 405 million (2020: MNT 622 million).

	2021	**2020 (Restated)**
	MNT'000	**MNT'000**
c) Loans from related companies:		
Shareholders of holding company		
Holding company /Tenger Financial Group/	-	12,579,408
European Bank for Reconstruction and Development	4,591,221	3,212,250
International Finance Corporation	42,532,559	42,314,141
	47,123,780	**58,105,799**
Other related parties		

The loans from the above shareholders of TenGer Financial Group LLC bear interest rates from 4.15% to 15.10% (2020: 4.25% to 16.80%) per annum. The interest expenses paid on such loans during the financial year amounted to MNT 2,834 million (2020: MNT 10,020 million).

31. Related party disclosures (Contd.)

	2021 MNT'000	2020 (Restated) MNT'000
d) Guarantees issued to related companies:		
Fellow subsidiaries	18,636	40,135
	18,636	**40,135**
e) Commission income from related companies:		
Holding company	863	262
Fellow subsidiaries	40,634	57,821
Shareholders of holding company	5,779	2,231
	47,276	**60,314**
Members of the Board of Directors and key management personnel of the Bank	59,848	81,062
Other related parties	198,145	190,504
	305,269	**331,880**
f) Contract fee paid to related companies:		
Fellow subsidiaries	197,158	199,310
g) Rental income from related companies:		
Fellow subsidiaries	18,182	20,112
h) Insurance brokerage income from related companies:		
Fellow subsidiaries	597,788	333,276
i) Claims income from related companies:		
Fellow subsidiaries	2,095	5,312
j) Interest expense on repurchase agreements:		
Fellow subsidiaries	-	41,657
k) Loss from disposal of other securities FVTPL:		
Fellow subsidiaries	(373,475)	-
l) Compensation of key management personnel:		
Short-term employee benefits	-	12,261
Salaries and bonuses	7,328,228	6,787,618
Contribution to social and health fund	889,493	591,338
	8,217,721	**7,391,217**

Terms and conditions of transactions with related parties

The above mentioned transactions and outstanding balances arose in the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances except for loans and advances to related parties at the period-end are unsecured. The loans and advances are secured by future lease receivable and other current assets. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2021 and 2020, The Bank has made impairment allowance in the amount of MNT 7.5 million and MNT 7.9 million relating to amounts owed by related parties.

32. Risk management

32.1 Introduction

Risk Management Approach

The primary function of the Bank's risk management is to advance the Bank's risk and control framework and to establish the risk function as a business enabler while simultaneously fostering three lines of defense. Each line of defense describes a specific set of responsibilities for risk management and controls, as follows:

The First Line of Defense owns and manages risk. It has ownership of and responsibility and accountability for directly assessing, controlling, and mitigating risk within its sight of control;

The Second Line of Defense oversees risk. It sets the risk management framework, policies and procedures, challenges risk limits and sets risk appetite, and monitors risk exposure. As such, the Second Line of Defense monitors the design and operation of the First Line of Defense's controls, as well as provides advice and guidance on an ongoing basis; and

The Third Line of Defense provides independent assurance. The independent audit function will provide the Board with assurance of the risk-based approach, covering how effectively the Bank assess and manages its risk profile and assessing the effectiveness of the first and second lines of defense.

Risk Governance and Committees

The ultimate responsibility for setting the Bank's risk appetite and effectively managing risks rests with the Board of Directors. The Board of Directors delegated its responsibility to the Board Risk Management Committee.

The key governance committees are:
- **The Board Risk Management Committee** provides ultimate oversight and independent on risk matters on behalf of the Board of Directors. Its responsibilities include approving the Bank's Risk Management Framework, reviewing the appropriateness and effectiveness of the Bank's risk management approach and risk controlling, including the approval of material credit exposure and ratification of write-off decisions;
- **The Bank Risk Management Committee** is the management level oversight committee to review, challenge and oversee the risk function, the implementation of the Risk Management Framework and the adherence to the approved risk appetite.
- **The Credit Management Committee** focuses on selected cases, which are either of significant risk or exposure, or cannot be resolved through the delegated authorities between the First and Second Line of Defense; and
- **The Operational Risk Committee** provides oversight over the Bank's control driven Operational Risk Framework and the Operational Risk Acceptance.

Risk Universe

The Bank assumes risk commensurate with its risk appetite. The Bank's risk universe defines those risk types the Bank is likely to face:
- **Credit Risk**, potential for loss due to failure of a counterparty to meet its obligation to pay the Bank in accordance with agreed terms;
- **Credit Concentration Risk**, potential for loss due to excessive credit exposure concentrations;
- **Market Risk**, potential for loss of earnings or economic value due to adverse changes in financial markets and/or prices;
- **Capital Risk**, potential inability to conduct business due to limited capitalization or short-fall against regulatory capitalization requirements, without incurring acceptable losses;
- **Liquidity Risk**, potential inability to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses;
- **Operational Risk** (including fraud), potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks;
- **Information Security Risk**, potential for harm or loss resulting from breaches of or attacks on information systems or loss of information;
- **Conduct Risk**, potential for loss resulting from delivery of unfair customer outcomes and/or breaches of the Bank's code of conduct;
- **Compliance Risk**, potential for loss resulting for failed compliance;
- **Reputational Risk**, potential for damage to the Bank's brand and reputation, resulting in loss of earnings; and
- **Strategic Risk**, potential for opportunity loss from failure to optimize the earnings potential of the Bank's business model.

32. Risk management (Contd.)

32.1 Introduction (Contd.)

Risk Appetite, Stress Testing and Risk Reporting

The Bank's Risk Appetite is reflected through the Bank's risk appetite statement, which complements the Bank's business plan. The Bank differentiates:

- **Risk Appetite**, which defines the amount of risk the Bank is willing to take in pursuit of the Bank's business model;
- **Risk and Exposure Limits**, which implement the Bank's Risk Appetite, for example through credit exposure limits or credit concentration limits
- **Risk Capacity**, which defines the amount of risk the Bank is able to take within its regulatory constraints; and
- **Stress Performance**, which defines the acceptable financial performance under predefined levels of stress.

The Bank's Risk Function periodically monitors the compliance against its risk appetite. Bespoke scenarios are applied to assess the Bank's financial performance under a mild and severe recession scenario. The Bank reviews alternative scenarios to assess the resilience of its business model. The alternative scenarios are complemented through a comprehensive contingent risk analysis.

32.2 Credit risk

The Bank's credit risk policy defines the framework for managing the Bank's credit risk. It describes the principles and basic practices to prudently manage credit risk in accordance with the approved credit risk appetite and in accordance with risk capacity and respective laws and applicable regulations of Mongolia.

Under the Bank's credit risk management framework, the business has ownership of and accountability for selecting customers, suggesting appropriate loan products including terms and conditions, assessing customer's ability to service debt, valuing collaterals, collecting, monitoring and reviewing the loans, detecting early warning signals, and taking appropriate measurements.

While the risk function sets credit related policies and procedures, challenges credit risk limits and sets credit risk appetite, and monitors credit risk exposures. It performs the ongoing monitoring of the design and operation of controls, as well as providing advice and guidance.

In accordance with the IFRS 9 standards, the Bank's credit risk disclosures reflect the expected credit loss (ECL) of the financial assets, measured on a collective and individual basis for financial assets.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on financial assets that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated semi-annually with each portfolio receiving a separate review by the management.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of impairment in an individual assessment. ECL are estimated by taking into consideration of the probability of default (PD) and loss given defaults (LGD), as per each loan stage, adjusted by the probability weighted macroeconomic scenarios.

The Bank assumes probability weights for the next 12 months, considering the current economic condition and growth outlooks. Given the high correlation between the GDP growth and the probability of defaults, weighted PD/LGDs reflect the forward-looking macroeconomic situation.

The Bank's definitions for loan stages are as follows:

Stage 1: Good Credit Quality Exposure is determined as "Normal" in BoM's assessment and loans that are overdue until 30 days past due. For these loans, 12-month ECL are recognized;

32. Risk management (Contd.)

32.2 Credit risk (Contd.)

Collectively assessed allowances (Contd.)

Stage 2: Deteriorating Credit Quality Exposure is determined as loans that are overdue from 31 days to 90 days, restructured loans and internally assessed “watch-listed” performing loans. For these assets, lifetime ECL are recognized; and

Stage 3: Low Credit Quality Exposure, identified as “Non-performing” in BoM’s regulation, including substandard, doubtful and bad loans. For these assets, lifetime ECL are recognized.

The impairment allowance is then reviewed by Chief Risk Officer and Chief Financial Officer to ensure compliance with the Bank's overall policy.

Credit risk stress testing

Our forward-looking macroeconomic model was performed based on the historical data of PD by using the econometrical tools. The data set includes a quarterly time series of leading macro indicators and the probability of default for 2011–2021. 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 modelling are selected based on their correlations with PD, which are the highest. After that, the Bank utilizes three macroeconomic scenarios to evaluate a range of possible outcomes. Model and analytics division produces macroeconomic forecasts under a baseline, upside and downside economic scenarios and their weight based on the current and the possible development of the macroeconomic condition.

The stress test was performed in worst, base, and optimistic scenarios by changing the weights of the three macroeconomic condition options which are mentioned above. On the other hand, according to the corresponding scenarios of the stress test, three weights options were selected, a forward-looking PD was obtained, and the stress test results were calculated using ECL calculations.

As for the base case scenario, we have chosen the downside scenario probability to be 45%, the baseline scenario probability to be 45%, and the upside scenario to be 10% based on the average of the international organization's forecasts that the Mongolian economy will grow by 6.1% in 2022 to perform ECL calculation. In the worst case scenario, economic growth will be around 1%, and unemployment will reach 11.5%, with the ECL estimating the downside weight to be 100%. In the optimistic scenario, the Mongolian economic growth is expected to be approximately 7% in 2022, similar to the International Monetary Fund's forecast, and the ECL estimates the weight of the upside to be 100%.

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

				MNT'000
Provision	**Loans**	**Leasing**	**Total ECL**	**Changes**
Upside forecast	60,528,531	1,028,339	61,556,870	14,162,345
Baseline forecast	72,766,207	2,953,008	75,719,215	
Downside forecast	78,085,349	4,927,860	83,013,209	(7,293,994)

32. Risk management (Contd.)

32.2 Credit risk (Contd.)

The tables below analyze the movement of the loss allowance during the year per class of assets.

Due from banks at amortised cost

	2021 Total Stage 1 MNT'000	2020 Total Stage 1 MNT'000
As at 1 January	82,761,466	122,475,712
New financial assets originated or purchased	17,908,774	64,465,832
Payments and assets derecognised	(57,970,624)	(104,180,078)
Gross carrying amount as at 31 December	**42,699,616**	**82,761,466**
Loss allowance		
As at 1 January	233,422	-
Charge for the year	88,006	754,855
Reversal for the year	(109,090)	(521,433)
Gross carrying amount as at 31 December	**212,338**	**233,422**

Loans and advances to customers at amortised cost subject to impairment

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2021				
As at 1 January 2021	1,247,301,847	87,302,560	104,480,328	1,439,084,735
New financial assets originated or purchased	1,309,655,841	-	-	1,309,655,841
- Transfer from stage 1	(116,935,011)	93,352,104	23,582,907	-
- Transfer from stage 2	7,869,261	(13,685,408)	5,816,147	-
- Transfer from stage 3	664,810	4,635	(669,445)	-
Payments and assets derecognised	(859,665,925)	(63,534,226)	(47,567,083)	(970,767,234)
Written-off	(38,772)	(12,844)	(644,750)	(696,366)
Gross carrying amount as at 31 December 2021	**1,588,852,051**	**103,426,821**	**84,998,104**	**1,777,276,976**
Loss allowance				
As at 1 January 2021	12,524,430	11,499,356	50,346,167	74,369,953
New financial assets originated or purchased	25,489,223	-	-	25,489,223
- Transfer from stage 1	(18,256,274)	14,593,330	3,662,944	-
- Transfer from stage 2	970,507	(1,548,975)	578,468	-
- Transfer from stage 3	650,876	6,396	(657,272)	-
Payments and assets derecognised	(8,083,189)	(6,146,670)	(16,954,817)	(31,184,676)
Written-off	(38,772)	(12,844)	(644,750)	(696,366)
Impact of exposure change, inputs and models used for ECL calculation	(3,292,164)	5,166,401	5,866,844	7,741,081
Gross carrying amount as at 31 December 2021	**9,964,637**	**23,556,994**	**42,197,584**	**75,719,215**

32. Risk management (Contd.)

32.2 Credit risk (Contd.)

Loans and advances to customers at amortised cost subject to impairment (Contd.)

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2020 (Restated)				
As at 1 January 2020 (Restated)	1,733,065,114	62,891,681	87,672,206	1,883,629,001
New financial assets originated or purchased	736,365,109	-	-	736,365,109
- Transfer from stage 1	(94,219,878)	65,382,769	28,837,109	-
- Transfer from stage 2	1,781,761	(12,449,006)	10,667,245	-
- Transfer from stage 3	212,264	246,680	(458,944)	-
Payments and assets derecognised	(1,129,881,311)	(28,757,712)	(20,863,195)	(1,179,502,218)
Written-off	(21,212)	(11,852)	(1,374,093)	(1,407,157)
Gross carrying amount as at 31 December 2020 (Restated)	**1,247,301,847**	**87,302,560**	**104,480,328**	**1,439,084,735**
Loss allowance				
As at 1 January 2020 (Restated)	13,945,441	1,855,220	43,230,238	59,030,899
New financial assets originated or purchased	14,485,369	-	-	14,485,369
- Transfer from stage 1	(8,546,232)	5,134,558	3,411,674	-
- Transfer from stage 2	66,500	(288,047)	221,547	-
- Transfer from stage 3	217,246	157,428	(374,674)	-
Payments and assets derecognised	(8,731,788)	(618,746)	(9,131,005)	(18,481,539)
Written-off	(21,212)	(11,852)	(1,374,093)	(1,407,157)
Impact of exposure change, inputs and models used for ECL calculation	1,109,106	5,270,795	14,362,480	20,742,381
Gross carrying amount as at 31 December 2020 (Restated)	**12,524,430**	**11,499,356**	**50,346,167**	**74,369,953**

*The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Bank.

The GoM and the BoM have announced various measures to support and stimulate the economy and the banking sector in order to overcome the negative impact arising from the pandemic. The measures announced by the GoM and BoM have included waived consumer and housing mortgage interest upto 13 months. In applying these requirements and in response to the requests from customers, the Bank has modified loans with a gross carrying value of MNT 111.5 billion as at 31 December 2021 (MNT 387.2 billion as at 31 December 2020). Actions which have led to loan modifications include deferring repayments of loan principal and interest for up to 6 months (some cases up to 12 months only) and waiving penalty interest on past due loans. The Bank is not required to designate as credit impaired loans for which a deferral has been granted due to Covid-19 purely on the basis of the application of the government measures.

32. Risk management (Contd.)

32.2 Credit risk (Contd.)

Debt investment securities at amortised cost

	2021 Total Stage 1 MNT'000	2020 Total Stage 1 MNT'000
As at 1 January	1,207,367,188	467,766,539
New financial assets originated or purchased	927,907,925	1,207,367,188
Payments and assets derecognised	(1,207,367,188)	(467,766,539)
Gross carrying amount as at 31 December	**927,907,925**	**1,207,367,188**
Loss allowance		
As at 1 January	-	25,392
Charge for the year	1,193,410	-
Reversal for th e year	-	(25,392)
Gross carrying amount as at 31 December	**1,193,410**	**-**

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

Gross by classes	2021 MNT'000	2020 (Restated) MNT'000
Loans and advances to customers at amortised cost	1,777,276,976	1,439,084,735
Debt investment securities at amortised cost	927,907,925	1,207,367,188
BoM current accounts and due from banks	467,376,826	409,354,925
Loan commitments	98,328,464	86,561,836
Contingent liabilities	64,682,406	68,979,099
Other assets	8,310,539	15,456,637
Total	**3,343,883,136**	**3,226,804,420**

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

Risk concentrations by industry

The table below shows the analysis of the Bank's credit risk concentration per class of financial assets. The amounts in table represent gross carrying amount before taking into account the fair value of the loan collateral held or other credit enhancements.

BoM current accounts and due from banks at amortised cost

Concentration by sector	2021 MNT'000	%	2020 MNT'000	%
Sovereign	424,677,210	90.9	326,593,459	79.8
Banking	42,699,616	9.1	82,761,466	20.2
Total	**467,376,826**	**100.0**	**409,354,925**	**100.0**

32. Risk management (Contd.)

32.2 Credit risk (Contd.)

Loans and advances to customers at amortised cost

Concentration by sector	2021 MNT'000	%	2020 MNT'000	%
Consumption	594,931,071	33.5	356,627,591	24.8
Trading	396,533,749	22.3	286,800,458	19.9
Deposit backed	212,365,724	11.9	144,173,749	10.0
Other	173,824,414	9.8	196,001,882	13.5
Production	132,891,150	7.5	124,570,657	8.7
Mortgage	97,240,114	5.5	99,128,116	6.9
Services	65,813,962	3.7	87,313,954	6.1
Construction	57,336,637	3.2	67,943,013	4.7
Mining	34,334,255	1.9	48,434,491	3.4
Agricultural	12,005,900	0.7	28,090,824	2.0
Total	**1,777,276,976**	**100.0**	**1,439,084,735**	**100.0**

Debt investment securities at amortised cost

Concentration by sector	2021 MNT'000	%	2020 MNT'000	%
Sovereign	907,686,267	97.8	1,207,367,188	100
Corporate	20,221,658	2.2	-	-
Total	**927,907,925**	**100.0**	**1,207,367,188**	**100.0**

Loan commitments

Concentration by sector	2021 MNT'000	%	2020 MNT'000	%
Retail				
Micro business loan	10,975,903	11.2	15,241,588	17.6
Business loan	10,587,845	10.8	12,067,207	13.9
Unsecured loan	8,988,869	9.1	10,543,800	12.2
SME and Corporate				
Trading	41,018,449	41.6	16,089,598	18.6
Production	19,231,950	19.6	20,246,328	23.4
Construction	5,855,247	6.0	2,843,909	3.3
Other	1,009,031	1.0	6,818,834	7.9
Services	506,443	0.5	1,500,000	1.7
Mining	154,727	0.2	1,210,572	1.4
Total	**98,328,464**	**100.0**	**86,561,836**	**100.0**

Financial guarantees (un-funded)

Guarantees	2021 MNT'000	%	2020 MNT'000	%
Trading	19,653,605	30.4	21,751,789	31.5
Production	14,133,894	21.9	9,403,448	13.6
Construction	13,321,709	20.6	13,059,718	18.9
Mining	8,950,069	13.8	523,498	0.8
Services	7,671,292	11.9	3,870,199	5.6
Other	943,011	1.4	20,302,032	29.5
Agricultural	8,826	-	68,415	0.1
Total	**64,682,406**	**100.0**	**68,979,099**	**100.0**

32. Risk management (Contd.)

32.2 Credit risk (Contd.)

Collateral and other credit enhancements

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty and the type of loan granted. The Bank's credit risk policy stipulates the eligible collaterals and loan acceptance to collateral value.

The main types of the Bank's eligible collaterals obtained are as follows:
(i) For immovable assets, the buildings, facilities, affordable houses and lands
(ii) For movable assets, the vehicles, equipment, cash, animals, inventory, future guaranteed funds and intangible assets.

The Bank performs physical inspection of the collateral and regularly monitors the market value of collateral, requests additional collateral in accordance with underlying agreement, and monitors the market value of collateral obtained during its review of adequacy of the allowance for impairment losses.

Collateral type:	**2021 MNT'000**	**2020 MNT'000**
Property	2,096,959,501	1,899,220,430
Goods in turnover	641,025,881	579,694,286
Vehicles	493,263,960	161,913,083
Cash deposits	362,215,059	271,940,701
Other & Unsecured	285,260,982	454,223,946
Equipment	72,392,204	69,040,447
Total	**3,951,117,587**	**3,436,032,893**

Credit quality per class of financial assets

The Bank uses the basic credit grading approach to categorize exposures according to the risk profiles, as follows:

Credit Grading	Moody's rating	Grade Description
A	Aaa to A3	Excellent
B	Baa1 to B3	Good
C	Caa1 to Caa3	Satisfactory
D	Ca	Monitoring
E	C, D	Impaired

This grading approach uses the risk parameters i.e. repayment pattern, collateral value and credit facility purpose to quantify the risk grade. It allows the management to compare the exposures across all lines of loans and advances to customers.

Apart from using this grading approach, the Bank applies the credit ratings assigned by the international rating agencies to the exposures for due from banks and financial investments.
The Bank does not rate the unquoted financial investments.

The table below shows that all financial assets exposed to credit risk in terms of credit grading. The amounts presented are gross of impairment allowances.

32. Risk management (Contd.)

32.2 Credit risk (Contd.)

Credit quality per class of financial assets (Contd.)

	2021				2020 (Restated)			
Grade	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total MNT'000**
BoM current accounts and due from banks at amortised cost								
Excellent	441,630,284	-	-	**441,630,284**	339,241,259	-	-	**339,241,259**
Good	25,746,542	-	-	**25,746,542**	70,113,666	-	-	**70,113,666**
Total gross	467,376,826	-	-	**467,376,826**	409,354,925	-	-	**409,354,925**
Loss allowance	(390,116)	-	-	**(390,116)**	(233,422)	-	-	**(233,422)**
Carrying value	**466,986,710**	**-**	**-**	**466,986,710**	**409,121,503**	**-**	**-**	**409,121,503**
Loans and advances to customers at amortised cost								
Excellent	431,788,191	-	-	**431,788,191**	444,679,492	-	-	**444,679,492**
Good	153,654,959	-	-	**153,654,959**	123,784,727	23,099,330	-	**146,884,057**
Satisfactory	723,990,009	-	-	**723,990,009**	673,148,229	-	686,542	**673,834,771**
Monitoring	279,418,892	103,426,821	-	**382,845,713**	5,689,399	64,203,230	699,185	**70,591,814**
Impaired	-	-	84,998,104	**84,998,104**	-	-	103,094,601	**103,094,601**
Total gross	1,588,852,051	103,426,821	84,998,104	**1,777,276,976**	1,247,301,847	87,302,560	104,480,328	**1,439,084,735**
Loss allowance	(9,964,637)	(23,556,994)	(42,197,584)	**(75,719,215)**	(12,524,430)	(11,499,356)	(50,346,167)	**(74,369,953)**
Carrying value	**1,578,887,414**	**79,869,827**	**42,800,520**	**1,701,557,761**	**1,234,777,417**	**75,803,204**	**54,134,161**	**1,364,714,782**
Debt investment securities at amortised cost								
Good	927,907,925	-	-	**927,907,925**	1,207,367,188	-	-	**1,207,367,188**
Total gross	927,907,925	-	-	**927,907,925**	1,207,367,188	-	-	**1,207,367,188**
Loss allowance	(1,193,410)	-	-	**(1,193,410)**	-	-	-	**-**
Carrying value	**926,714,515**	**-**	**-**	**926,714,515**	**1,207,367,188**	**-**	**-**	**1,207,367,188**
Loan Commitment								
Excellent	10,437,317	-	-	**10,437,317**	4,223,776	-	-	**4,223,776**
Good	262,916	-	-	**262,916**	690,945	-	-	**690,945**
Satisfactory	38,617,666	-	-	**38,617,666**	50,211,456	-	-	**50,211,456**
Monitoring	47,813,768	1,160,287	-	**48,974,055**	31,356,779	56,067	-	**31,412,846**
Impaired	-	-	36,510	**36,510**	-	-	22,813	**22,813**
Total gross	97,131,667	1,160,287	36,510	**98,328,464**	86,482,956	56,067	22,813	**86,561,836**
Loss allowance	(254,331)	(10,487)	(11,840)	**(276,658)**	(335,746)	(259)	(7,339)	**(343,344)**
Carrying value	**96,877,336**	**1,149,800**	**24,670**	**98,051,806**	**86,147,210**	**55,808**	**15,474**	**86,218,492**

32. Risk management (Contd.)

32.2 Credit risk (Contd.)

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

Aging analysis of past due loans by class of financial assets

Loans and advances to customers

	2021 Gross carrying amount MNT'000	2021 Loss allowance MNT'000	2020 (Restated) Gross carrying amount MNT'000	2020 (Restated) Loss allowance MNT'000
0-30	38,493,209	1,686,340	87,823,253	1,171,685
31-60	33,489,627	10,661,130	62,491,972	6,215,004
61-90	5,408,682	767,522	12,706,014	3,060,742
91-180	12,910,494	4,418,466	9,701,582	4,507,953
More than 181 days	59,209,215	31,609,398	89,411,582	43,926,812
Total	**149,511,227**	**49,142,856**	**262,134,403**	**58,882,196**

Modified financial assets and liabilities

The following tables refer to modified financial assets and liabilties where modification does not result in derecognition.

	2021 MNT,000	2020 MNT,000
Amortised cost of financial assets modified during the period	65,750,405	61,557,924
Amortised cost of financial liabilities modified during the period	57,448,428	-
Net modification loss (Note 9)	(1,755,888)	(2,143,945)

32.3 Liquidity risk

The Bank's liquidity risk refers to potential inability to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The Bank sets risk appetite on the liquidity metrics that should be in place to cover withdrawals at unexpected levels of demand. It is the Bank's policy to maintain a prudent mix of borrowed and core deposit base. In addition, the Bank maintains a statutory deposit with BoM equal to 6% and 18% of customer deposits in local and foreign currency, respectively.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities 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.

32. Risk management (Contd.)

32.3 Liquidity risk (Contd.)

Analysis of financial liabilities by remaining contractual maturities (Contd.)

Financial liabilities	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000	Carrying amount MNT'000
At 31 December 2021								
Financial instruments at FVTPL	-	30,036	62,895	7,197	270,922	-	371,050	371,050
Derivative financial instruments								
Financial liabilities at amortised cost								
Due to banks	2,793,088	202,350	198,075	-	-	-	3,193,513	2,691,406
Due to customers	798,418,885	224,092,125	231,006,475	353,850,252	240,867,624	675,299,967	2,523,535,328	2,252,099,731
Borrowed funds	-	25,943,042	137,086,228	331,765,067	363,225,912	3,929,569	861,949,818	768,775,737
Debt securities issued	-	8,426,297	-	-	-	-	8,426,297	8,403,663
Lease liabilities	-	649,934	675,499	1,323,680	3,539,404	-	6,188,517	5,422,527
Other liabilities	-	9,670,266	3,972,817	18,466,286	9,639,519	6,567,767	48,316,655	36,042,229
Total	**801,211,973**	**269,014,050**	**373,001,989**	**705,412,482**	**617,543,381**	**685,797,303**	**3,451,981,178**	**3,073,806,343**
At 31 December 2020 (Restated)								
Financial liabilities at amortised cost								
Due to banks	1,947,976	-	-	-	-	-	1,947,976	1,938,909
Due to customers	751,054,506	204,416,601	246,435,741	344,334,364	202,223,498	556,820,519	2,305,285,229	2,025,470,938
Borrowed funds	-	29,241,859	98,257,801	361,702,422	442,188,041	89,172,625	1,020,562,748	937,585,863
Debt securities issued	-	8,733,304	69,808	2,023,781	-	-	10,826,893	10,618,643
Lease liabilities	-	680,309	406,777	838,075	1,760,563	-	3,685,724	3,176,591
Other liabilities	-	16,076,016	4,840,557	9,164,841	31,235,069	6,078,350	67,394,833	34,020,409
Total	**753,002,482**	**259,148,089**	**350,010,684**	**718,063,483**	**677,407,171**	**652,071,494**	**3,409,703,403**	**3,012,811,353**
Contingent liabilities and commitments								
At 31 December 2021								
Contingent liabilities (Note 29)	28,817,711	15,507,621	7,204,896	11,136,662	1,996,744	18,772	64,682,406	64,682,406
Commitments (Note 29)	258,751	1,618,575	11,167,014	10,805,930	74,460,572	17,622	98,328,464	98,328,464
Total	**29,076,462**	**17,126,196**	**18,371,910**	**21,942,592**	**76,457,316**	**36,394**	**163,010,870**	**163,010,870**
At 31 December 2020								
Contingent liabilities (Note 29)	22,029,756	24,873,638	2,602,943	5,610,742	13,862,020	-	68,979,099	68,979,099
Commitments (Note 29)	1,121,180	4,117,816	16,134,525	24,579,986	40,608,329	-	86,561,836	86,561,836
Total	**23,150,936**	**28,991,454**	**18,737,468**	**30,190,728**	**54,470,349**	**-**	**155,540,935**	**155,540,935**

32. Risk management (Contd.)

32.4 Market risk

The Bank defines the market risk as potential for loss of earnings or economic value due to adverse changes in financial markets and/or prices. The Bank's financial risk policy is ensure the Bank's financial risks, i.e. market risk, capital risk and liquidity risk are adequately managed and the Bank's capital and liquidity resources are deployed as efficiently and effectively as possible.

Interest Rate Risk

The Bank defines interest rate risk as potential loss due to a negative impact from adverse changes in interest rates and their implied volatility. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Bank's net interest income, while a long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures will be affected. The Bank's Risk Function periodically monitors the compliance against its risk appetite on the Bank's interest rate position.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income. The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the 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	2021 Change in basis points	2021 Sensitivity of net interest income MNT'000	2020 Change in basis points	2020 Sensitivity of net interest income MNT'000
USD	+120	108,186	+120	(371,867)
MNT	+120	1,575,075	+120	387,762
USD	-120	(108,186)	-120	371,867
MNT	-120	(1,575,075)	-120	(387,762)

Foreign Currency Exchange Risk

The Bank defines the foreign currency exchange risk as potential loss due to adverse changes in currency exchange rates and their implied volatility. The Bank sets risk limits on the level of exposure by foreign currencies, which are monitored on a frequent basis against the approved risk appetite. Apart from using foreign exchange exposure mismatch, the Bank uses the Value-at-Risk ("VaR") approach to manage and measure foreign exchange risk.

The VaR approach

The VaR approach is an integral part of the Bank's risk management since March 2007. The VaR approach is designed to measure market risk in a normal market environment. It assumes that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution.

The Bank calculates the VaR losses using a 99% confidence level and a one day holding period. The calculation employs a Variance and Covariance technique and uses one year of historical market data as input variables. The one-day VaR losses are estimated at 99% confidence level, as follows:

Variance/ Covariance

	2021 MNT'000	2020 MNT'000
31st December	7,982	11,762
Average Daily	23,302	35,382
Highest	165,647	428,268
Lowest	5,746	5,643

32. Risk management (Contd.)

32.4 Market risk (Contd.)

Currency Risk (Contd.)

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

Financial assets and financial liabilities	MNT MNT'000	USD MNT'000	Euro MNT'000	Other MNT'000	Total MNT'000
As at 31 December 2021					
Financial assets					
Cash and balances with BoM	24,357,667	204,624,383	14,795,076	4,536,255	248,313,381
Mandatory cash balances with BoM	108,488,656	105,742,648	-	-	214,231,304
Financial instruments at FVTPL					
Derivative financial instruments*	8,613,707	708,205,507	-	-	716,819,214
Securities	76,288,953	-	-	-	76,288,953
Loans and advances to customers	90,000,608	-	-	-	90,000,608
Financial assets at FVTOCI					
Equity instruments	3,613,197	-	-	-	3,613,197
Financial assets at amortised cost					
Due from banks	232,540	24,551,750	507,033	17,195,955	42,487,278
Debt instruments	926,714,515	-	-	-	926,714,515
Loans and advances to customers	1,679,737,942	20,751,574	1,068,245	-	1,701,557,761
Other assets	5,269,402	1,398,069	10,832	13,947	6,692,250
Total financial assets	**2,923,317,187**	**1,065,273,931**	**16,381,186**	**21,746,157**	**4,026,718,461**
Financial liabilities					
Financial instruments at FVTPL					
Derivative financial instruments*	659,420,754	8,546,400	-	-	667,967,154
Financial liabilities at amortised cost					
Due to banks	740,978	1,910,779	26,236	13,413	2,691,406
Due to customers	1,814,662,647	399,263,760	16,368,669	21,804,655	2,252,099,731
Borrowed funds	151,060,255	617,715,482	-	-	768,775,737
Debt securities issued	-	8,403,663	-	-	8,403,663
Lease liabilities	5,422,527	-	-	-	5,422,527
Other liabilities	31,664,329	3,946,154	-	431,746	36,042,229
Total financial liabilities	**2,662,971,490**	**1,039,786,238**	**16,394,905**	**22,249,814**	**3,741,402,447**
Net position	**260,345,697**	**25,487,693**	**(13,719)**	**(503,657)**	**285,316,014**

** The figure is shown at gross amount to reflect the actual currency position*

32. Risk management (Contd.)

32.4 Market risk (Contd.)

Currency Risk (Contd.)

The table below summarizes the Bank's exposure to foreign exchange risk as 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	**MNT MNT'000**	**USD MNT'000**	**Euro MNT'000**	**Other MNT'000**	**Total MNT'000**
As at 31 December 2020					
Financial assets					
Cash and balances with BoM	29,721,662	112,293,899	13,457,080	24,032,007	179,504,648
Mandatory cash balances with BoM	97,370,599	89,002,069			186,372,668
Financial instruments at FVTPL					
Derivative financial instruments*	24,609,969	916,264,215	-	-	940,874,184
Securities	42,356,444	-	-	-	42,356,444
Loans and advances to customers	62,983,322	-	-	-	62,983,322
Financial assets at FVTOCI					
Equity instruments	3,609,660	-	-	-	3,609,660
Financial assets at amortised cost					
Due from banks	36,076,062	35,847,655	2,203,733	8,400,594	82,528,044
Debt instruments	1,207,367,188	-	-	-	1,207,367,188
Loans and advances to customers	1,302,543,058	61,763,908	407,816	-	1,364,714,782
Other assets	12,347,906	986,155	13,783	11,914	13,359,758
Total financial assets	**2,818,985,870**	**1,216,157,901**	**16,082,412**	**32,444,515**	**4,083,670,698**
Financial liabilities					
Financial instruments at FVTPL					
Derivative financial instruments*	847,411,536	17,778,628	-	-	865,190,164
Financial liabilities at amortised cost					
Due to banks	1,682,620	83,875	57,684	114,730	1,938,909
Due to customers	1,621,609,085	360,754,197	15,939,013	27,168,643	2,025,470,938
Borrowed funds	127,955,780	809,630,083	-	-	937,585,863
Debt securities issued	2,118,137	8,500,506	-	-	10,618,643
Lease liabilities	3,176,591	-	-	-	3,176,591
Other liabilities	31,675,608	389,983	32,623	1,922,195	34,020,409
Total financial liabilities	**2,635,629,357**	**1,197,137,272**	**16,029,320**	**29,205,568**	**3,878,001,517**
Net position	**183,356,513**	**19,020,629**	**53,092**	**3,238,947**	**205,669,181**

** The figure is shown at gross amount to reflect the actual currency position*

Prepayment effect

Prepayment effect is the financial effect which will be caused by the customers and counterparties that repay or request repayment earlier than expected.

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income.

If 20% of repayable financial instruments were prepaid at the beginning of the year, with all other variables held constant, the profit before tax for the year would be reduced by MNT 34,497 million (2020: MNT 29,829 million).

32.5 Operational risk

The Bank defines the operational risk as potential loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks. The Bank's operational risk function guides process owners on the definition and implementation of effective controls aimed at prevention, detection, and mitigation of operational risks. Process reviews and controls readings define operational risk ratings which guide the operational risk acceptance and management.

33. Capital adequacy

The Bank actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by BoM. During the past year, the Bank complied in full with all its externally imposed capital requirements.

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 strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

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. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to the shareholder, return capital to the shareholder or issue new equity or equity related securities.

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 31st December were as follows:

	2021	**2020 (Restated)**
Core capital ratio	17.11%	17.42%
Risk weighted capital ratio	17.11%	17.93%
Tier I capital		
Ordinary shares	100,000,000	58,625,979
Share premium	1,817,773	1,817,773
Other reserves	11,439,408	11,439,408
Retained profits	197,574,658	194,936,550
Total Tier I Capital	310,831,839	266,819,710
Tier II capital		
Other	-	7,765,736
Total Tier II Capital	-	7,765,736
Total capital /capital base	**310,831,839**	**274,585,446**

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

	2021		**2020 (Restated)**	
%	**Risk Assets MNT'000**	**Weighted MNT'000**	**Risk Assets MNT'000**	**Weighted MNT'000**
0	1,425,202,329	-	1,677,819,137	-
20	54,376,857	10,875,371	64,898,155	12,979,631
50	393,400,654	196,700,327	321,364,273	160,682,137
90	-	-	227,816,662	187,904,687
100	1,721,651,696	1,515,058,682	1,184,590,373	1,042,448,610
125	-	-	4,817,278	5,572,823
150	29,405,807	42,835,829	60,735,471	66,930,423
Adjustments:				
Operational risk	-	44,493,353	-	45,070,045
Foreign exchange risk	-	6,906,415	-	10,005,298
Total	**3,624,037,343**	**1,816,869,977**	**3,542,041,349**	**1,531,593,654**

34. Events after the reporting period

On 6 January 2022, the Bank sold MNT 9.6 billion of repo financed SME loans to SFC, for which the Bank received ABS 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 16.3).

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 7.2 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 3.7 billion as of the date of issuance of these financial statements.

Subsequent to the period end, the outbreak of COVID - 19 has been continuing and causing disruption to health and safety as well as businesses and economic activity in certain industries throughout the world. Although this is a non-adjusting subsequent event, as the situation evolves, the Bank continues to monitor these external circumstances and to assess potential impacts to the Bank’s operations as they may become impacted for future financial periods.

No other matter or circumstance has occurred subsequent to the period end that has significantly affected, or may significantly affect, the operations of the Bank.

35. Mongolian translation

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