TRADE & DEVELOPMENT BANK

Annual Report 2021

GREETINGS FROM THE CEO

The Trade and Development Bank has played an important role in laying the foundation and strengthening the two-tier banking system in Mongolia. We were the first commercial bank to introduce payment cards, ATMs, internet banking, mobile banking, and SWIFT international money transfer services in Mongolia. Moreover, we are the only commercial bank in Mongolia to have issued and successfully repaid medium-term notes in the international markets. We are renewing our strategy for the next 30 years, renewing old concepts, values, and traditional banking practices, and shifting to a new business model that would create value for our customers for the long-term.

2021 was a year of continued unfavorable economic conditions for every nation due to the global pandemic. However, as the Green Climate Fund's accredited entity in Mongolia, TDB has provided long-term, concessional financing for national projects and programs with the aim to reduce greenhouse gas emissions and mitigate the risk of climate change-induced disasters. Despite the negative effects of the pandemic on the banking sector, we have taken flexible measures tailored to our customers' business conditions and worked diligently together with our customers. In addition, I would like to mention that we have taken the lead in supporting our citizens, customers, and employees in every way possible related to the Government and central bank's decisions regarding payments, loans, and deposits.

I would like to convey our deepest gratitude to our esteemed customers, business partners, international partner banks, and employees for putting your trust in us and striving together towards prosperity.

With sincere regards,
Chief Executive Officer
ORKHON Onon

SENIOR MANAGEMENT TEAM

ORKHON. O /Chief Executive Officer/	**RAHN. W** /President/	**BANZRAGCH. O** /First Deputy Chief Executive Officer/	**ENKHMEND. A** /First Deputy Chief Executive Officer/
SOLONGO. CH /Deputy Chief Executive Officer/	**NYAMRENTSEN. D** / Deputy Chief Executive Officer/	**BAATAR. S** /Deputy Chief Executive Officer/	**GANBAYAR. TS** /Deputy Chief Executive Officer/
	GANTUMUR. L /Deputy Chief Executive Officer/	**MUNKHNAST. P** /Deputy Chief Executive Officer/	

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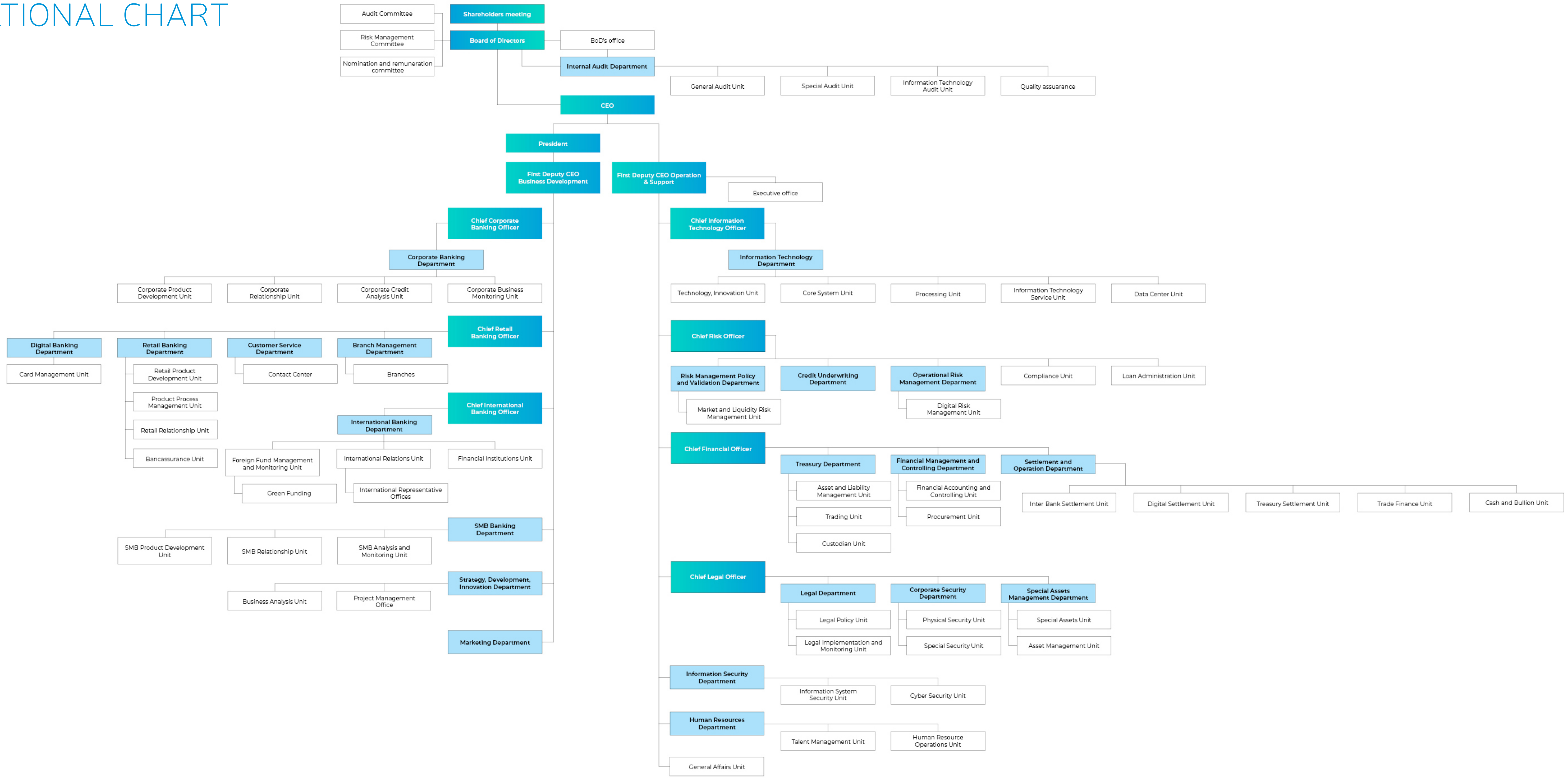
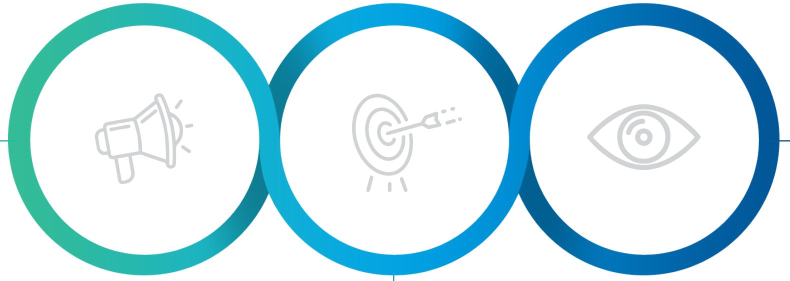
ORGANIZATIONAL CHART



TOGETHER TOWARDS SUSTAINABILITY

TDB
ХУДАЛДАА ХӨГЖЛИЙН БАНК

Our logo was designed based on a shape of a coin, symbolizing infinite circulation and accumulation of wealth towards the chest, located at the center of the coin, from cardinal and ordinal directions.



SLOGAN

TOGETHER TOWARDS PROSPERITY

The meaning is to encourage, unify and inspire our employees, customers, investors and other stakeholders to walk together towards development and prosperity.

TOGETHER TOWARDS SUSTAINABILITY

It is a definition of sustainable development that encourages banks, customers, partners, and the country to work together for a common goal of meeting the needs of today's global population without diminishing the needs of the future generations.

MISSION

We provide comprehensive financial services that exceed expectations of our customers through innovative technology in order to enable them to achieve their desires and aspirations.

VISION

To be the leading bank in Mongolia's development and prosperity.

CORE VALUES

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

CORPORATE GOVERNANCE

Excellence in corporate governance is the key factor of our corporate operations and TDB implements a comprehensive governance framework in line with the best international practices. Our governance structure determines the fundamental cooperation and relations among the members of the Board of Directors, management team, shareholders and other stakeholders. It defines which ethical values each employee shall follow in order to reach our corporate strategies and objectives as well.

BOARD OF DIRECTORS

Our Board of Directors value transparency and honesty at all levels Through its processes, it achieves transparent, open governance and communications under all circumstances addressed. The board provides vision and strategy to direct and support banking operations.

MANAGEMENT TEAM

The management team of TDB consists of highly competent managers in banking and finance. Proper corporate governance structure, and years of experience are the key to the success of our management team. It also enables us to maintain the long-term profitability of the bank and increase shareholder value.

EMPLOYEES

The key to TDB's success is our energetic and competent employees and improving the development structure of fair incentives, support and promotion enables us to offer the best services to our clients.

US

TDB is strongly committed to maintaining an ethical workspace, complying with legal and ethical responsibilities. We practice the principle of honesty when we work to serve our customers, clients, and communities to offer the best services and fulfill our responsibilities to our shareholders and clients.

CORPORATE GOVERNANCE PURPOSE

Our purpose is to improve corporate governance, bring it in line with international best practices and principles and to become internationally recognized, with good reputation, and raise valuable investment.

BOARD OF DIRECTORS

Chairman
Randolph KOPPA

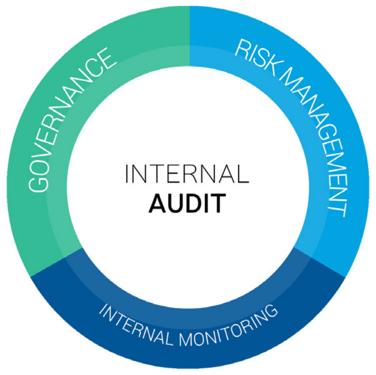
Directors
ERDENEBILEG Doljin
KHURELBAATAR Dambiijav
YANJMAA Dagmid

Independent directors
BOLORMAA Jalbaa
DELGERSAIKHAN Jamsrandorj

Secretary of the Board
NYAMSUREN Navaansharav

INTERNAL AUDIT & MONITORING SYSTEM

Internal audit improves an organization's performance by independently evaluating and monitoring the effectiveness of governance and risk management of the bank. The Audit Committee and the Internal Audit Department under the Board of Directors are in charge of the TDB's internal audit.



INTERNAL AUDIT DEPARTMENT

The Internal Audit Department, operating independently from the Executive Management, is committed to providing sound advice and guidance to improve the bank's operations, providing independent and objective assurance, and increasing its value. The Internal Audit Department operates in compliance with international best practices, such as the International Professional Practice Framework, issued by the International Institute of Internal Auditors (IIA).

The Internal Audit Department in the reporting year:

- In 2021, the audit certification and consulting services were performed at an appropriate level, and the plan approved by the Board of Directors and the Audit Committee was 98 percent complete.
- The revised audit policies and procedures were approved by the Board of Directors and the Audit Committee, and new methods and best practices were implemented in our operations.

In 2022, the Internal Audit Department will not only continue to perform its core functions but also aim to implement new and advanced comprehensive audits, introduce new versions of audit software, and strengthen the operations of the quality assurance office.

INTERNAL MONITORING SYSTEM

Internal monitoring is an integral part of the bank's daily operations and a risk mitigation system for all levels of business and operations. The senior management, mid-level management, employees, and stakeholders of the bank participates and the Audit Committee and the Internal Audit Department evaluate the effectiveness and efficiency of internal control. TDB is constantly taking measures to improving its internal control system. For example, all units of the bank comply with the "Internal Control Matrix" approved by the CEO, provisions related to internal monitoring are included in the guidelines and regulations, monitoring roles are stated in the job descriptions of employees, and our workplace and reporting systems have monitoring functions.

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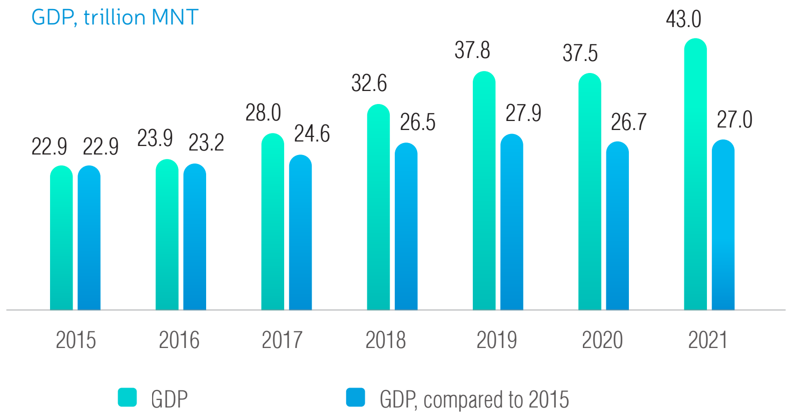
ECONOMY OF MONGOLIA

"PRODUCTION IN THE MINING, TRANSPORTATION AND CONSTRUCTION SECTORS DECLINED DUE TO FOREIGN TRADE DISRUPTIONS"

In 2021, the economy grew at a slower pace than expected and did not reach the pre-pandemic level of 2019. China's tightening of the Covid-19 pandemic restrictions and border restrictions, which delayed the transportation of mining and other goods, were the main factors in the slowdown of economic growth.

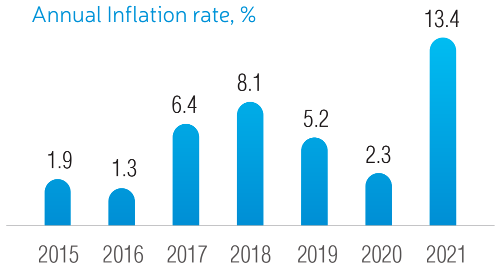
The supply of raw materials and inventories has been disrupted, leading to a decline in the production of construction and manufacturing sectors. The production in the agricultural sector has declined due to livestock stabilization policies, livestock taxes, and other factors. As domestic quarantine is lifted and vaccinations programs started, economic activity recovered and revenues from trade, services, hotels, food service industry, and net taxes on products increased.



"INCREASED CONCESSIONAL LOANS AND SUPPORTIVE THE ACTIVITIES OF RETAIL AND CORPORATE BUSINESSES"

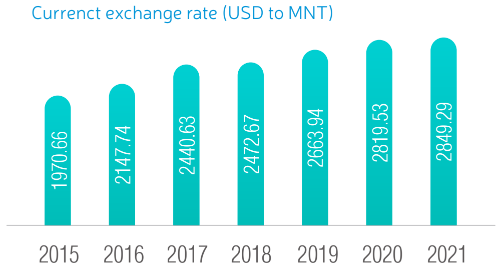
Loan issuance increased under the Government of Mongolia's "MNT10 trillion comprehensive plan for protection and economic recovery". For example, loan program to support employment for SMEs, repo loans from the Bank of Mongolia, loans to support agriculture, and loans from the mortgage program were issued, resulting in a 21.3 percent increase in the total outstanding loans of the banking system compared to the end of 2020.

Banks also extended the term of mortgage loans and deferred interests on loans in accordance with the Bank of Mongolia's decision and the Law on Prevention, Control and Reduction of Social and Economic Impact of Coronavirus Pandemic.



"HIGHLIGHTS OF THE ECONOMY"

- Vaccination program: As of 2021, 66.5 percent of Mongolia's population has received 2 doses of vaccination and 28.2 percent have received 3 doses of vaccination.
- Inflation accelerates: Mongolia's annual inflation rate reached 13.4 percent in December 2021, the highest level since August 2014.
- Rise in commodity prices: Global commodity and oil prices have escalated. In 2021, although Mongolia's export of mining products decreased in volume, it increased in value from the previous year.
- Interest rates dropped: In 2020, the policy rate reached a record low, and the interest rates on loans and deposits in the banking sector also fell. In December 2021, the weighted average interest rate on new loans decreased by 0.47 percentage compared to the previous year.



BANKING SECTOR

As our economy's market structure is dominated by the banking sector, the health and stability of the banking sector is an important indicator of the overall picture of the financial system.

In the reporting year, the amount of the total assets of the banking sector increased by **11.8** percent and reached MNT **41.0** trillion. Net loans accounted for **79.3** percent of asset growth and other assets for the remaining **20.7** percent.

LOANS

The Government-sponsored concessional loans and mortgage program under "MNT10 trillion comprehensive plan for protection and economic recovery" supported the consistent growth of the total loan portfolio which increased by 21.3 percent and reached MNT 20.7 trillion. Retail loans accounted for 50.3 percent, or MNT 10.4 trillion, of the total loan portfolio, and corporate loans accounted for 47.5 percent, or MNT 9.8 trillion.

Although the level of non-performing loans in the banking sector was 11.8 percent at the end of 2020, it decreased by 1.8 percentage and reached 10.0 percent in the fourth quarter of 2021. Out of the total amount of non-performing loans 49.2 percent was corporate loans, 14.3 percent was retail loans and the remaining 36.4 percent was issued to other customer segments. Rapid growth of the total loan portfolio, deferral of mortgage loan repayments, and the Bank of Mongolia's regulatory measures to restructure and extend non-performing loans resulted in the decline in non-performing loans.

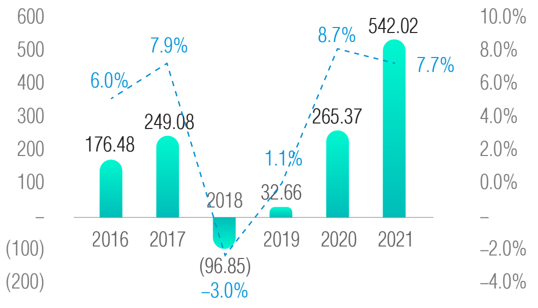
CURRENT ACCOUNT AND DEPOSITS

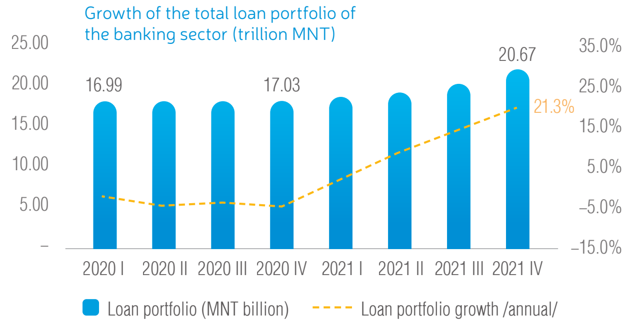
Total amount of deposits reached MNT19.0 trillion, an increase of 5 percent, or MNT0.97 trillion, compared to the same period of the previous year. Local currency deposits accounted for 79 percent, or MNT15.04 trillion, of the total deposits while foreign currency deposits accounted for the remaining 21 percent or MNT3.97 trillion. Retail deposits account for 89 percent of total local currency deposits and corporate deposits account for the remaining 11 percent. Retail deposits accounted for 82 percent of total foreign currency deposits and corporate deposits accounted for 18 percent.

Total amount of current accounts increased by 38% to MNT7.5 trillion. Retail current accounts made up 38 percent, or MNT1.29 trillion, of the total amount of current account and corporate current accounts made up the remaining MNT2.15 trillion. Compared to the previous year, retail and corporate foreign currency current accounts increased by 41 and 15 percent, reaching MNT0.37 trillion and MNT1.97 trillion, respectively.

PROFITABILITY

In 2021, the banking sector's profit reached MNT542.0 billion, which is a 104 percent increase compared to last year. As the impact of the pandemic receded and the economy recovered the banking sector's profitability improved. Banks are becoming more profitable and banks' capital is growing, improving the risk-bearing capacity of the banking system as a result.



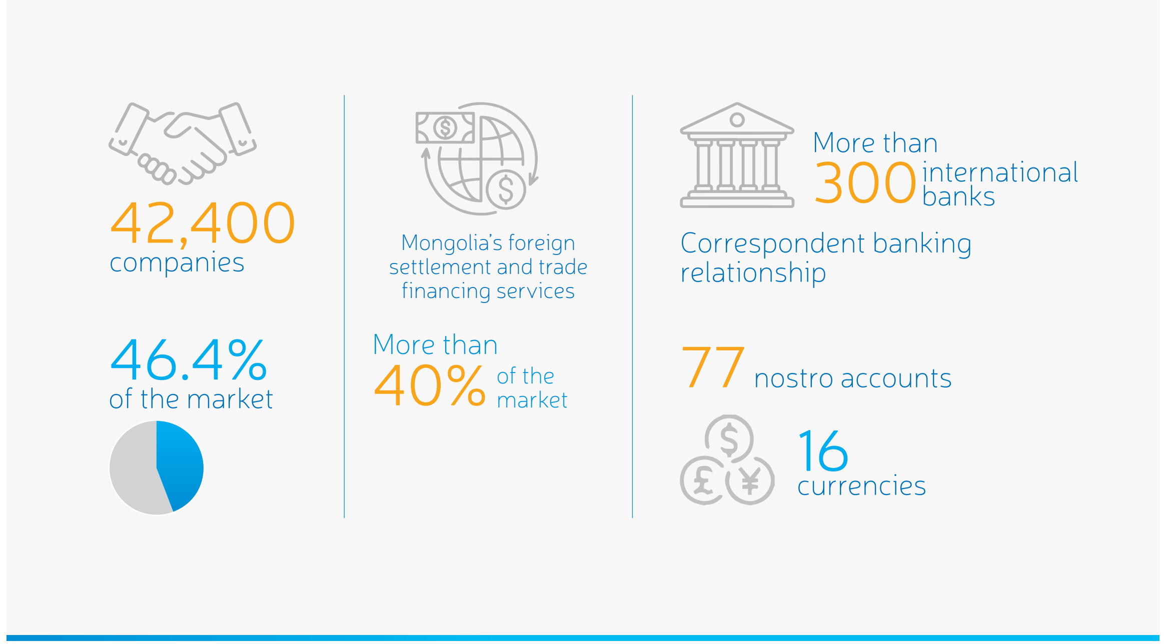


HIGHLIGHTS OF 2021

Since 2007, the Trade and Development Bank of Mongolia (TDB) has successfully issued five bonds worth $1.14 billion in the international market, providing loans to our customers at a competitive rate, contributing to the increase in the country's foreign exchange reserves, stabilizing the national currency and its trade competitiveness. Our bank is the first issuer and the only commercial bank in Mongolia to have successfully issued bonds in the international market.

As of the reporting year, more than 42,400 companies operating in Mongolia are expanding their businessed by using TDB's products and services, accounting for 46.4 percent of the banking and financial system's corporate segment.

It also provides more than 40 percent of Mongolia's foreign settlement and trade financing services. We have established direct correspondent banking relationship with more than 300 international banks and financial institutions, providing foreign transfer services in 16 currencies to any country in the world through 77 nostro accounts in these banks. Leading the banking sector TDB has an international representative office in Tokyo, Japan.



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HIGHLIGHTS OF 2021

B3
Moody's maintained TDB's rating at **B3** and raised its outlook to **"Stable"**.

USD 15
million long-term financing agreement with the International Investment Bank was signed.

"Cooperation Agreement" with Russia's leading bank - Gazprombank was signed to introduce banking support services for agreements and negotiations to ensure the fulfillment of payment and other obligations of stakeholders in mega-projects. Moreover, we have started a large-scale, long-term partnership for capital management and trade finance.

Awarded as the "Honorable ToC (Sustainable Finance) Bank" of 2021.

The Government of Mongolia approved the "Gold-2" National program by Resolution No. 20 on January 18, 2017, and we financed **84%** of the program's total funding.

Participated in the government's "10 trillion comprehensive plan for protection and economic recovery" program by providing MNT76 billion in total for "Agricultural Support Loans" to 17 customers in the wool, cashmere, agriculture, meat, flour, and leather sectors, accounting for **26.5%** of the total program portfolio.

The Government of Mongolia approved the "Loans for financing fuel reserves for companies licensed to engage in wholesale trade and production of petroleum products" program by Resolution No. 311 in 2021, and we financed **MNT100 billion** under the program.

The online acceptance of Letter of Credit and Letter of Guarantee requests, and overdraft services will be ready to be introduced and implemented in 2022.

In order to save our customers' time and introduce digital self-service opportunities, we have been providing step-by-step instructions and advice to our customers on how to receive online credit line and statements. As a result, by the end of the reporting year, the total amount of customer loans issued through **TDB online** was **MNT29.1 billion.**

Fully complied with the **"PCI-DSS"** international standard to ensure the confidentiality and security of software, systems, databases, networks, servers, equipment and their operating systems, information security, and payment card systems for the 5th year.

Introduced **TDB Wallet** in the TDB online system. As a result, customers will be able to register any bank card in their Wallets and make transactions free of charge.

We have raised **$10** million funding from the International Bank for Economic Cooperation (IBEC) for our green loan program.

On the 20th anniversary of our partnership with Visa International, we launched a brand new **BRITTO VISA** card in collaboration with world-renowned artist Romero Britto, whose work has been officially licensed for our payment card design.

Cooperation with the Shambala Campus LLC

In accordance with the strategic goal of becoming an international bank, we are taking actions to support the implementation of the UN Sustainable Development Goals, defined the objectives of becoming a green bank and initiated the **"Climate 30+ Green Recovery Program"** in order to achieve our objectives.

Successfully continued state-sponsored programs such as the Bank of Mongolia's "Repo Loan", Asian Development Bank's "Agriculture & Rural Development Project" and the "Employment creation project", KfW -financed project, and the JICA Two-step loan project.

In order to support our corporate customers as well as small and medium-sized businesses, in accordance to our strategic goals, "Supply Chain Loan", a brand-new product, was introduced to the market.

Automated the process of loan issuance and introduced a customer credit scoring calculation model based on artificial intelligence **(AI)** and machine learning.

Introduced **SWIFT GPI** service of **SWIFT** international transfer into our banking operations. This provides advantages such as real-time tracing of international payment transfers, sending and receiving recall requests, reducing the processing time, and being able to inform our customers about transactions on a regular basis.

In accordance with the Bank of Mongolia's works on introducing ₮ cards with chip, TDB has taken the lead and successfully certified ₮ cards with chip by a third party, and introduced a domestic ₮ card with EMV chip on October 1, 2021.

Introduced a unified portal, **EAPP** online inquiry system, for receiving customer feedback.

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BRIEF FINANCIAL STATEMENT

SEPARATE FINANCIAL STATEMENTS

Billion MNT

Assets	2019	2020	2021
Cash and balances with Bank of Mongolia	1,096.1	857.0	976.4
Due from other banks	301.4	570.0	504.4
Financial investments	1,832.6	1,712.0	2,602.6
Investment in subsidiaries and associates		40.8	0.5
Derivative financial instruments	494.9	89.4	101.6
Loans and advances, net	3,503.2	4,108.7	4,588.5
Other assets	103.8	112.7	200.1
Investment properties	80.9	149.0	79.9
Assets held for sale		4.1	3.6
Property, plant and equipment	392.3	458.6	480.8
Right of use assets	12.7	10.1	7.9
Intangible assets	5.8	4.4	2.3
TOTAL ASSETS	7,823.7	8,116.8	9,548.7

LIABILITIES	2019	2020	2021
Due to other Banks	189.4	102.9	13.9
Repurchase agreement	65.0	224.3	289.8
Due to Customers	3,821.4	5,311.5	6,266.3
Derivative financial instruments	76.2	99.7	78.0
Borrowed Funds	759.3	558.7	1,408.7
Sub-ordinated debt	150.0		-
Debt securities issued	1,536.5	160.1	160.1
Other liabilities	508.6	628.4	289.1
Lease liabilities	13.6	11.4	9.0
Deferred income tax liabilities		0.1	12.5
Deferred tax liabilities		2.2	1.0
TOTAL LIABILITIES	7,120.0	7,099.3	8,528.6

EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	2019	2020	2021
Ordinary shares	50.0	72.7	323.8
Share premium	19.3	251.1	-
Revaluation reserves	129.2	169.0	151.2
AFS reserve	22.2	24.1	4.4
CFHedge reserve			54.6
Retained earnings	483.0	500.6	486.2
TOTAL EQUITY	703.7	1,017.5	1,020.1
TOTAL EQUITY AND LIABILITIES	7,823.7	8,116.8	9,548.7

INCOME STATEMENTS

	2019	2020	2021
Interest income	701.6	707.9	597.1
Interest expense	(521.7)	(506.2)	(405.6)
Net interest income	179.9	201.7	191.5
Net fee and commission income	40.4	39.4	44.4
Other operating income (net)	32.1	(5.7)	(13.4)
Net non-interest income	72.5	33.7	31.0
Operating income	252.4	235.4	222.5
Operating expenses	(129.9)	(131.6)	(130.9)
Credit loss expense/(reversal)	(58.1)	(64.7)	57.7
Share of loss of an associate		(14.5)	(28.7)
Profit before tax	64.4	24.6	120.5
Income tax expense	-	(3.6)	(15.7)
Profit for the year	64.4	21.0	104.8

KEY FINANCIAL RATIOS

Profitability	2019	2020	2021
Cost-to-income ratio	51.5%	55.9%	58.8%
Net interest margin	3.1%	3.5%	2.9%
ROE	9.1%	2.1%	10.3%
ROA	0.8%	0.3%	1.1%
Growth rate	2019	2020	2021
Asset growth	7.4%	3.7%	17.6%
Loan growth	14.7%	17.3%	11.7%
Due to customers growth	8.5%	39.0%	18.0%
Equity growth	-24.2%	44.6%	0.3%
Asset quality	2019	2020	2021
Loan / Deposit	91.7%	77.4%	73.2%
Loan to asset ratio	44.8%	50.6%	48.1%
Liquidity ratio	32.1%	39.3%	40.6%
Capital	2019	2020	2021
Tier 1 Capital Adequacy Ratio	11.4%	14.8%	13.0%
Capital Adequacy Ratio	17.0%	16.4%	13.0%

SUSTAINABILITY

We strive to support the long-term sustainable development of our society by supporting and financing environmentally friendly businesses, emphasizing sustainability and accountability in conducting our business operations.

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

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

In 2020, the Bank started working with its new organizational structure and the Green Funding Office ("GFO") was established under the Foreign Fund Management and Monitoring Unit of the International Banking Department. The GFO is working proactively to develop and implement best global practices in terms of raising sustainable financing for co-financing projects together with international financial institutions.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY POLICY

Within the framework of its environmental and social responsibility policy, in addition to complying with the relevant laws and regulations of Mongolia, we aim to implement and adhere to the following principles:

- Ten principles of the UN Global Compact
- UNEP Finance Initiative: Statement by Financial Institutions on the Environment and Sustainable Development
- Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
- International Finance Corporation's (IFC) Eight Performance Standards
- Eight principles of sustainable finance of the Mongolian Sustainable Finance Association (MSFA, ToC)
- Seven Green Investment Principles for the Belt and Road Initiative

GENDER EQUALITY POLICY

Trade and Development Bank of Mongolia's "Gender Equality Policy", fully revised in 2019, was completely in accordance with international standards. The policy aims to implement necessary measures to ensure and to support gender equality, support projects and programs aimed at empowering women, to raise awareness, to balance gender relations and to prevent discrimination.

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

TDBM TOWARDS SUSTAINABILITY

TDBM successfully launched its Green Business Loan and Women Entrepreneurship Support Loan products to facilitate sustainable finance in Mongolia. Since 2020, while supporting the implementation of 17 SDGs, TDBM has been concentrating more on four of them, namely Quality Education, Gender Equality, Decent Work and Economic Growth, and Climate Action. As of end-2021, MNT1.29 trillion worth of sustainable financing was outstanding in line with these SDGs.

Moreover, in 2021, Bank of Mongolia (BoM), International Finance Corporation, and MSFA jointly assessed TDBM's implementation of sustainable financing operation and its performance, as in result, TDBM received "A" rating, the highest among all commercial banks in Mongolia. Based on this assessment as well as our ambitious goals and long-term strategies towards sustainability determined for the next 30 years, TDBM was also named by these organizations as the "Honorable Sustainable Finance Bank" and has been chosen by the MSFA to promote sustainable development in 2022 under the title of "Leading Sustainable Organization" to lead other fellow commercial banks in the area of shifting usual banking operations to towards green banking.

SUSTAINABLE DEVELOPMENT GOALS

MNT 1.29 trillion was disbursed in line with the Sustainable Development Goals.

GREEN CLIMATE FUND

"Upscaling Sustainable and Green Finance Practices in Mongolia", Readiness program, jointly developed by MSFA and TDBM, was successfully approved by Green Climate Fund

ToC

"Honorable Sustainable Finance Bank" award and was chosen as "Leading Sustainable Organization" for 2022

CLIMATE INVESTMENT PLATFORM

IRENA
International Renewable Energy Agency

Became a partner of multilateral development banks and financial institutions

Sustainable Development Goals are being implemented strategically:

QUALITY EDUCATION

TARGETS

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

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

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

4.7 By 2030, ensure that all learners acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and of culture's contribution to sustainable development

TDB'S 2021 ACTIVITIES

Renovated three school libraries within the "Boundless Dreams" project, which contributed to the quality and equitable education of more than 6100 children in vulnerable areas.

In 2021, TDB's 1,082 employees in duplicated numbers participated in internal training. Trainings include:

a. Sustainable finance, climate change training
b. Green and social loan training
c. Gender and leadership training
d. Training for new relationship managers on E&S assessment and Gender Policy
e. Gender equality in the workplace and gender sensitive management training for all levels of management as well as all incoming staff

Provided all employees with sustainable development information through Bank's daily internal announcements and delivered "Sustainable finance newsletter" to the customers.

GENDER EQUALITY

TARGETS

5.1 End all forms of discrimination against women and girls everywhere

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

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

TDBM'S 2021 ACTIVITIES

- The bank has revised the Gender Committee that oversees gender-related activities and ensures the implementation of Gender Equality Policy at all levels of the Bank. TDB continues to contribute to the promotion of gender-sensitive participation of women and men by ensuring gender equality in the Bank's operations, products, and services.
- As of 2021, 61 percent of Bank's employees are female and 39 percent are male. Furthermore, 54 percent of the bank's mid-level management is female and 46 percent is male.
- As for the TDBM's corporate clients, 33 percent have female CEOs and 67 percent have male CEOs while 35 percent of TDBM's SME clients have female CEOs and 65 percent have male CEOs. Furthermore, 73 percent of TDBM's retail customers who received business loan products are female, while 27 percent are male. As for the gender composition of our retail customers who were issued consumer loans, 52 percent of them are female and remaining 48 percent are male.
- Established the "Gender Network Club" under the TDB Gender Committee, aiming to disseminate knowledge and information about gender and ensure staff participation.

Total staff
61% Female
39% Male

Business loan
73% Female
27% Male

DECENT WORK AND ECONOMIC GROWTH

TARGETS

8.3 Promote development-oriented policies that support productive activities, decent work creation, entrepreneurship, creativity and innovation, and encourage formalization and support the growth of micro-, small- and medium- sized enterprises through expanding access to financial services;

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

TDB'S 2021 ACTIVITIES

The Vision of TDBM is to be the leading commercial bank in Mongolia providing its customers with tailored banking services and products in accordance with international standards while creating value for its shareholders. Our bank's mission is to be close to customers both in traditional and digital ways while helping them to realize their aspirations. In line with this, despite the overall negative impact of COVID-19 pandemic in the Mongolian economy, TDBM has been managing unexpected risks related to the pandemic outbreak quite well.

- As of December 31, 2021, nearly MNT 1.54 trillion (~USD 449.7 million) worth of business loans were disbursed to 334 corporate clients with overlapping occurrences, nearly MNT 297.5 billion (~USD 104.4 million) worth of business loans were disbursed to 1,941 small and medium business clients and around MNT 1.065 trillion (~USD 373.86 million) worth of consumer loans was provided to 55,502 individual customers.
- Since 2020, TDBM has been providing its customers with consumer green loan products from its own liquidity. As of December 31, 2021, around MNT 3.8 billion (~USD 1.34 million) worth of consumer green loans were disbursed to 543 individual clients.
- The Bank's green business loans, amounted to a nominal value of MNT 37.56 billion, or approximately USD 13.2 million as of Q4 2021. There has been a 19.8% increase in the green business loan portfolio from Q3 to Q4 2021 and is expected to further increase in 2022. Moreover, as of 2021, TDBM's social loans amounted to the nominal value of MNT 1.26 trillion, equivalent to around USD 441.02 million. From Q1 to Q4 2021, TDBM's social loan portfolio has increased by approximately 58.4%.

Consumer green loan
3.8 billion MNT

Green business green loan
37.56 billion MNT

Social loan
1.26 billion MNT

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CLIMATE ACTION

TARGETS

13.3 Raise awareness about climate change mitigation, spread information about climate change adaptation and early warning, and improve human and institutional capacity

13.a Meet the needs and requirements of developing countries in terms of transparency in key risk mitigation measures and their implementation, fulfill the commitments of developed countries to implement the UN Framework Convention on Climate Change and to raise $ 100 billion annually from all sources by 2020 with the aim to start the Green Climate Fund as soon as possible using the funds accumulated.

TDB'S 2021 ACTIVITIES

- Green Hour – TDBM initiated the Green Hour campaign to save energy by turning off the lights for 1 hour every day.TDBM collects and disposes used batteries and plastic waste bins for waste sorting. Collected hazardous waste is then delivered to the Mongolian National Waste Recycling Association and the Center for Freshwater Resources and Environmental Protection.
- TDBM became the first institution to issue an SPO (Second-Party Opinion) on its Sustainability Framework in compliance with the Green Bond Principles, the Social Bond Principles, and the Sustainable Development Bond Guidelines. (External rating was provided by Vigeo Eiris, a subsidiary of Moody's).
- In 2021, TDBM also successfully organized its first Green Finance Forum, with the participation of the UNDP, Bank of Mongolia, and other respective organizations. Furthermore, TDBM has initiated the bank's internal "Climate 30+: Green Recovery" program, which aims to increase the contribution and participation of the private sector in achieving sustainable development.
- TDBM cooperated with the Mongolian Sustainable Finance Association in development of "Greenhouse gas emission reduction tool" in assistance of the Ministry of Environment of Mongolia.
- TDBM's Readiness program on "Upscaling Sustainable and Green Finance Practices in Mongolia" was approved by the GCF.

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CORPORATE SOCIAL RESPONSIBILITY

ONE DOOR ONE TEST

In February of 2021, the Government of Mongolia launched a mass COVID-19 testing campaign named "One door - One test". This campaignwas led by the health sector, and more than **1,900** doctors and medical staff collected more than **500,000** tests **24** hours a day for 12 days. TDBM has actively supported this campaign, which was the starting point for mass vaccinations against Covid-19 in Mongolia.

FRONT-LINE WORKERS AGAINST THE PANDEMIC

In May of the reporting year of 2021, TDBM signed a memorandum in cooperation with the Ministry of Health. Under the memorandum, doctors and medical staff working in the health sector were able to receive all types of banking products and mortgage loan applications without queuing. On International Nurses Day, TDBM has expressed gratitude to the staff of the First State Central Hospital and Sukhbaatar Health Center, and presented encouragement gifts.

PROTECTING THE EMPLOYEES FROM POTENTIAL RISKS

During the Covid-19 pandemic, a total of **16,000** rapid tests were collected from the employees in duplicated numbers from the employees in order to prevent and detect potential COVID-19 spread.

HOPE AND POSSIBILITY

TDBM has traditionally sponsored the **«Hope and Possibility»** marathon to encourage, motivate, and provide self-confidence to people with special needs. The event is organized annually by Achilles International Mongolia.

ONE BILLION TREES

TDBM joined the **"One Billion Trees"** national campaign to reduce the impact of climate change in Mongolia, protect and increase forest and water resources, and thus planted trees near **"Bumbat springs"**, calling on more people to join in the tree planting, which makes up for anan invaluable investment for nature.

BOUNDLESS DREAMS

In the year of 2021, under the "Boundless Dreams" project, which aims to create a comfortable learning environment for children to learn, we renovated and enriched the libraries of Public School No.1, Public School No.93, and the Mongolian National University of Medical Sciences. As a result, we have contributed to the quality education of a total of **140,441** students from **47** schools and about **5,038** teachers and educators with the Boundless Dreams project.

HUMAN RESOURCE MANAGEMENT

We remain proud of the fact that the Trade and Development Bank of Mongolia is a leader in our sector for our social responsibility, foreign relations, sustainable development policy, and human resource policy. In line with our bank›s updated strategy, we have defined our long-term human resource strategy goals and implemented a talent management system.

From over 4 000 job applicants, the bank expanded its workforce with 350 qualified bankers with core competencies under the process of international standardized recruiting and training methods. We also aim to provide employees with sustainable career development, thus, more than 370 employees have been promoted vertically and horizontally while ensuring gender equality under the gender equality policy of TDBM.

The Bank has successfully implemented an efficient system of salaries and bonuses to increase the satisfaction of its 2,300 valuable employees, who are the backbones of our success. With the reform of the salary and bonus system, salary changes have become more transparent and all employees have fair opportunity to achieve a raise.

Employees will be able to receive the necessary raise by developing their skills in the work scope, knowledge and skills in the workplace. In line with the Bank›s vision, mission, and long-term goals for continuous development and the professional development of its employees, the "TDBM Competency Dictionary" was developed and introduced to identify the qualifications needed to achieve aspired job goals and objectives. This has enabled us to ensure sustainable business growth by developing and enhancing the capacity and the skills of our employees. Based on the Competency Dictionary, the current level of the staffs' competency and qualifications are assessed, and skills and approaches for further development are identified.

The Bank›s evaluation system was redesigned and further developed, and a Competency Assessment was processed. By defining the knowledge and skill requirements for employees, we have established a highly-skilled human resource system which resulted in positive outcomes for the efficiency of the banking business.

Our employees were afforded with annual health check-up within the "Health Package" in order to ensure the health of our employees and to prevent any possible illnesses. In addition to that, during the Covid-19 pandemic, our employees were tested more than 16,000 times to prevent any potential risks of outbreak.

350+ people were employed

370+ employees have been promoted

2300 employees have the opportunity to increase their salaries

TRAINING AND DEVELOPMENT

Based on the Bank›s policy and employees' training needs 15,292 employees were involved in more than 300 external and internal trainings of 28 subjects to expand their knowledge and skills. In addition, new strategic training programs were implemented and 60% of the total employees were involved in these training.

As part of its long-term strategic goal of becoming an international bank, we have partnered with language learning centers, with 10% of TDBM's employees partaking in the training. TDBM has duly developed a comprehensive model for training and introduced the model into our operations, identified optimal needs and requirements for training and development, and implemented continuous training and development activities.

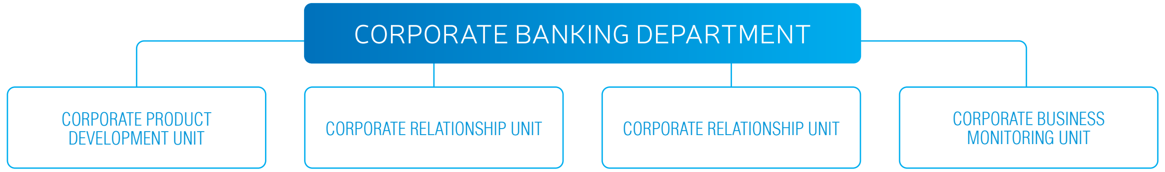
In order to better identify the training and development needs and requirements of our employees, and to increase the effectiveness of the training, we started evaluating the training effectiveness. The benefits of the training were evaluated, and the processes and issues that needed to be further improved and solved were identified, which had a positive impact on the Bank›s overall performance and productivity.

15292 employees, **300+** training of **28** types

BUSINESS OPERATIONS

CORPORATE BANKING

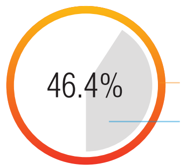
The Trade and Development Bank have always focused on the corporate segment, including large businesses, and in 2021, TDBM›s Corporate Banking Department has maintained its leading position in the banking sector and expanded even more.



It has been a year since TDBM was restructured within its new strategy and during this time, we have focused on expanding corporate segment relations and cooperation, caring for our clients during the pandemic, supporting them in overcoming difficulties that arose by providing fast and reliable services.

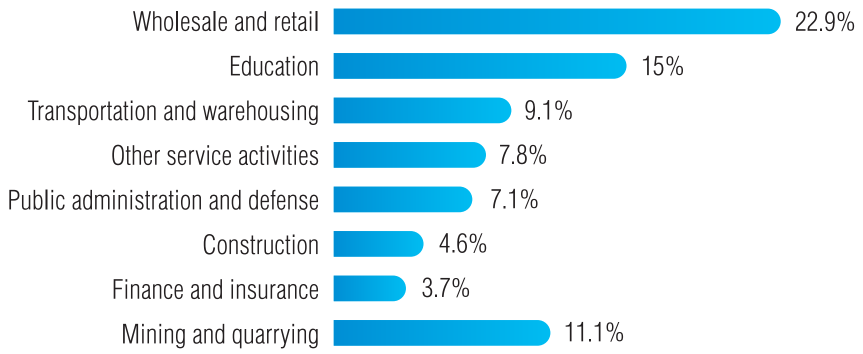
CREDIT INFORMATION

Although it has been a difficult year due to the pandemic, the Corporate Banking Department has successfully achieved its annual plans and achieved growth the portfolio. The market share of the total corporate loan portfolio is 41%.



In 2021, we offered more than 40 types of products to more than 1800 organizations and had a mutually beneficial cooperation. Furthermore, as part of our goal to become a Customer-centric bank, we have worked closely with our customers by offering products and services that meets the needs of the segment›s customers through our Corporate Relationship Unit.

OPERATING FIELDS OF THE CUSTOMERS



GREEN RECOVERY PROGRAM

As part of its strategic goal of becoming an international bank, TDBM has launched the Climate 30+ Green Recovery Program, which is set out to achieve the UN Sustainable Development Goals and further becoming a Green Bank. A total of MNT29.3 billion in green loans were provided to customers in the corporate segment in the areas of sustainable wastewater use, energy savings, and pollution prevention.

Sustainable financing framework 2

Energy efficiency 16

Sustainable water and waste consumption 1

Low polluting energy 1

Green building 1

AGRICULTURAL SUPPORT PROGRAM

We are actively involved in Government measures and projects to support our customers, aimed to reduce the impact of the pandemic on the economy, support businesses, help the economy recover, and increasing employment.

Within this framework, TDBM participated in the Government›s «10 trillion for Comprehensive Plan to Protect Public Health and Recover the Economy « program, assisting with MNT76 billion in «Agricultural Support Loans» to 17 customers operating in the wool, cashmere, meat, flour, and leather processing sectors. This involvement made up 26.5% of the total program portfolio.

AGRICULTURAL SUPPORT LOAN

Stockpiling meat	6
Spring sowing	5
Cashmere preparation	3
Wheat germ oil/Wheat oil plant	2
Preparation of hides and skins	1

GOLD PROGRAM

The Corporate Banking Department is actively participating in the following programs to provide low-cost, long-term loans to reduce the financing costs, increase solvency, and ensure the financial stability of our customers:

Үүнд:

1. The Government of Mongolia has approved the "Gold-2" national program by Resolution No.20 on January 18th of 2017, and the Bank has financed 84% of the total number of customers involved in the program;
2. The Government of Mongolia has approved the "Financing loan to build fuel reserves for companies licensed to engage in wholesale trade and production of petroleum products" program by Resolution No.311 in 2021, and the Bank has provided financing of MNT100 billion under the program.

Gold program loan portfolio information

84% TDB

16% Other banks

OTHER PROGRAMS

In previous years, the Government of Mongolia, the Bank of Mongolia, the Development Bank and other organizations have implemented the following programs and TDBM has been successfully implementing programs of foreign and domestic banks and financial institutions, consistently meeting prudential ratios and international standards:

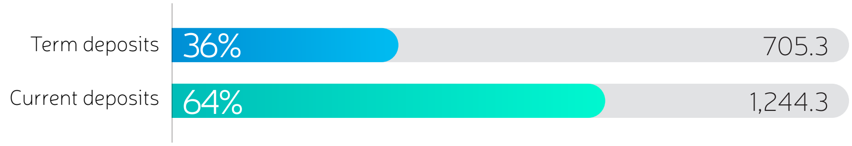
- Bank of Mongolia's 'Repo loan' facility;
- Asian Development Bank›s 'Agriculture and Rural Development Project'
- Job creation project
- Germany's KfW-financed project
- JICA's two-step loan project

МОНГОЛБАНК МОНГОЛ УЛСЫН ТӨВ БАНК | ХҮНС, ХӨДӨӨ АЖ АХУЙ, ХӨНГӨН ҮЙЛДВЭРИЙН ЯАМ | JICA | МОНГОЛ УЛСЫН ХӨГЖЛИЙН БАНК | ADB ASIAN DEVELOPMENT BANK

CURRENT, SAVINGS

We offer our customers a competitive deposit product with interest and currency options, and foreign and domestic transactions in all currencies and we also effectively support them to manage their assets efficiently.

At the end of the reporting year, the balance of current and deposit products from the customers of the corporate segment reached MNT 1,949.6 billion, an increase of 56% compared to the previous year.



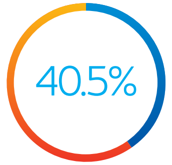
Term deposits accounted for MNT 705.3 billion or 35% of the total term deposits in the banking system.

FOREIGN TRADE

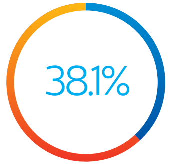
As of the end of November 2021, Mongolia›s total foreign trade turnover increased by 14% from the end of the previous year, and both exports and imports also showed growth.

Trade and Development Bank's share in the total market of Mongolia

Foreign trade financing



Letter of credit for export and import



Domestic guarantee

Due to the pandemic, there is a growth in the need for digital products and services around the world. Therefore, we also aim to digitalize our products and services and provide our customers with e-services. Within this framework, in order to save our customers› time and increase the usage of digital self-service, we provided information and advice to customers on how to get online loans and certificates without having to visit a branch in person. As a result, in 2021, a total of MNT 29.1 billion loans were obtained by customers using TDB Online Bank.

Moreover, Letters of Credit, Guarantee Requests, and Overdraft Services will be introduced and ready for use via online in 2022. We have implemented a number of initiatives to streamline our internal operations, simplify the decision-making process, and reduce paper consumption and wasteful spending towards the goal of becoming a Green Bank.

SMALL AND MEDIUM SIZED BUSINESS BANKING

The Trade and Development Bank has consistently supported small and medium-sized businesses, which are the backbone of the Mongolian economy, and has provided fast and risk-free financial products and services to meet their needs.

In 2021, the Bank had provided products and services to more than 64,000 small and medium-sized business customers.

As part of our customer-centric banking strategy, we followed international trends based on customer demand and introduced 5 new loan products to the market. In the reporting year, the total outstanding loans issued by the bank to small and medium-sized businesses amounted to MNT521 billion, accounting for 9.42% of its bank loan portfolio.

At the end of the reporting year, the balance of liquidity reached MNT 912.7 billion, accounting for 15.49% of the bank›s assets.

Number of customers
64,361

Loan portfolio balance
MNT 521 billion

Total current and deposit
balance MNT 912.7 billion

LOAN TO SUPPORT WOMEN ENTREPRENEURS

Within the framework of the Climate 30+ Green Recovery Program, a loan to support women entrepreneurs was successfully introduced to the market as well. The loan will provide concessional financing to women-owned, women-led and women employee dominated businesses. Within this financing, a loan of MNT6.5 billion was issued in 2021.

Loan to support women entrepreneurs
MNT 6.5 billion

GREEN BUSINESS LOAN

TDBM has launched the Climate 30+ Green Recovery Program as part of our goal to become a Green Bank. Under this initiative, in order to support the long-term sustainability of our customers, we have introduced the "Green Business Loan" product to the market and issued a loan of MNT11.4 billion in 2021. This green loan is exempt from the principal payment in the first 24 months of the loan tenor and can effectively assist the customer›s business.

Green business loan
MNT 11.4 billion

LOAN INTEREST RATES HAVE DECREASED

We have reduced our loan interest rates on micro-business loans, working capital loans, and small investment loans to support small and medium-sized businesses whose business income was disrupted by the pandemic.

shoppy.mn

In cooperation with Shoppy LLC, we have introduced working capital loans on favorable terms for businesses and individuals who sell their products through the Shoppy.mn platform. The product does not require collateral from the loan applicant, the loan decision can be made within 1-3 business days, it is based only on the income of the online store at Shoppy.mn, and it is available for customers of any bank.

RENTAL COLLECTION SERVICE

We have introduced a rent collection service for small and medium-sized businesses or lessees to reduce the financial burden of paying high rents at the end of each month. This service is also a product that allows the lessor to receive the income on a regular and risk-free basis. The product is based on a lease agreement, which ensures that the two-way relationship is maintained through regular transfer services, generating a certain amount from the lessee›s daily income and automatically transferring the payment to the lessor›s account on the day of each payment.

REPO LOAN

MNT278.5 billion of the "Repo Loan" was obtained from the Bank of Mongolia and disbursed through branches and settlement centers within the «10 trillion for Comprehensive Planning to Protect Health and Recover the Economy « program approved by the Government Resolution No.42 of 2021

Repo loan
MNT 278.5 billion

EMPLOYMENT SUPPORT LOAN

As of 31 December 2021, TDBM issued loans of MNT218 billion for the Employment support loan within the «10 trillion for Comprehensive Planning to Protect Health and Recover the Economy» program approved by the Government Resolution No.42 of 2021.

Employmentsupport loan
MNT 218 billion

SUPPLY CHAIN LOAN FACILITY

As part of the Trade and Development Bank›s strategic goal, a new product of «Supply Chain Loan Facility» was introduced to the market. This product is the **FIRST** product in the Mongolian financial market to resolve the payments of the parties involved in the Supply Chain.

On the supplier›s side:

Opportunity to advance receivables on goods sold on loan

On the buyer›s side:

The process of borrowing goods from suppliers with credit will no longer be needed under this facility and also be able to pay the suppliers on time.

LOAN BALANCE (by product)

Business loan	Real estate loan	Project loan	Other
MNT 353 billion	MNT 101.6 billion	MNT 52.7 billion	MNT 13.7 billion

RETAIL BANKING

2021 was a distinctive year focused on the fight against the Covid-19 pandemic, which spread around the world. The Retail Banking Department and its units aimed to become a digital bank by offering e-services in 2021 rather than providing banking products and services to customers at the branches.

POLICY:

For assets:

We have planned to increase the deposits of all citizens of Mongolia, make its benefits known to our customers, increase our customers' financial literacy, and pursue policy to make our products more flexible, customer-friendly, and distinguishable from other commercial banks.

For the loan:

In order to deliver loan products and services to customers more quickly, we have used AI to increase the speed of loan processing, reduced the number of required documents, introduced innovative products and services that meet customer needs, delivered new loan applications remotely, and made loan products and services more flexible.

HIGHLIGHTS

For the loan:

Within the framework of the "10 trillion Comprehensive Plan to Protect Health and Recover the Economy" implemented by the Government of Mongolia, the citizens› requests for low-interest mortgage loans were promptly resolved. MNT304 billion in mortgage loans were issued to 3,579 individuals in 2021.

3,579
citizens

MNT 304
billion mortgage loan

For insurance brokerage:

In our insurance brokerage services, we adhere to the principle of fully protecting the interests of our customers and obtaining insurance coverage in accordance with the contract. In this context, a total of MNT2.08 billion was reimbursed to customers last year. The main purpose of the brokerage service is to balance the interests of the parties. We have collected a total of MNT4.64 billion in premium income from our partner insurance companies and maintained our leading position in the banking insurance brokerage industry. In 2022, we aim to use fintech, an international trend in the financial sector, to fully introduce technological advances in banking insurance brokerage services.

Insurance companies
premium income of MNT 4.64 billion

Customers
compensation of MNT 2.08 billion

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SALARY PACKAGE

In line with the financial needs of customers and employees of organizations that process their salaries through TDBM, a new "Salary Package" service was introduced, which includes banking products and services such as a current account, salary card, digital banking, deposit, and insurance. By purchasing a salary package, customers will be able to use certain products and services of our bank free of charge.

SALARY PACKAGE

Current account | Salary card | Digital banking | Deposit | Insurance

CHILDREN'S PACKAGE

TDBM has introduced a new Maamuu, Kids, and Junior packages to provide financial education to children from an early age, tailored to the age characteristics of the bank›s customers under the age of 18. The product is unique in that it combines the most popular products for children, such as children›s deposit, an international card with discount and cashback, and digital banking services, while being exempt from bank service charges.

CHILDREN'S PACKAGE /exempted from the bank commissions/

Children's deposit | International card | Digital banking

CONSUMER LOAN SCORING MODEL

TDBM has developed and introduced AI-based customer assessment scoring models for Salary loans, Car loans, Credit cards, and Mortgages. This is a step forward in increasing the speed of processing customer loan applications, offering customers the lowest possible interest rates, predicting the non-performing loans, and reducing risk levels.

CUSTOMER RATING SCORING MODEL BASE ON ARTIFICIAL INTELLIGENCE (AI)

Salary loan | Car loan | Credit card | Mortgage

GREEN CONSUMPTION LOAN

As part of its social responsibility, TDBM has expanded the range of environmentally friendly green consumption loan products and services, and added a new green private housing and electric car loans. In order to reduce air and soil pollution in Mongolia, loans will be provided for products that are environmentally friendly and meet the required standards.

Build green private housings

Electric cars

LONG-TERM DEPOSIT

In order to support foreign currency reserve, we have introduced new long-term, flexible deposit products such as compound interest and possible to make expenses in the middle of the deposit term.

$ DEPOSIT

Long-term

Compound interest

It is possible to make expenses in the middle of the period

ONLINE LOAN APPLICATION

In order to save customers› time and simplify banking products and services, salary loan applications have been made possible to be received and processed online. We are currently working with the aim to receive all types of consumer loan applications online and provide banking services remotely without the customer having to visit the branch.

LOAN PAYMENT

A total of 18,713 borrowers› interest and principal payments have been deferred to ease our customers from financial hardship and burden due to the spread of the coronavirus pandemic around the world and to help them cope with emergencies. In order to save customers› time and prevent risks, loan deferral requests and additional loan deferral agreements have been signed remotely through the bank›s website.

18,173 customers in duplicated number › Loan interest and principal payments were deferred

CONSUMER ONLINE LOAN

TDBM has been working with Cody LLC to introduce e-consumer loans to the market. In 2021, the number of e-loan partners has been expanded to 21. As a result, individual customers, regardless of whether they are TDBM customers or not, will be able to choose their products from the partner organizations› websites, send loan applications remotely, and have them delivered to their homes. In addition, people living in the countryside can now visit the the bank's branch located nearby them to have access to online consumer loans, regardless of time or place.

WORLD SAVINGS DAY

The Bank of Mongolia, the Mongolian Bankers Association, the Savings Banks Foundation for International Cooperation, and other commercial banks jointly celebrated the "World Savings Day" for the 10th consecutive year. The Bank participated in Mongol HD TV›s ‹Morning Program› to inform and advise the public about the importance of financial education and accumulating savings.

BELOVED EARTH

The "Beloved Earth" video contest was announced for children under the age of 18 to help them understand how simple daily actions can affect nature and the earth. 3 children under 6 years old were awarded Maamuu deposit vouchers worth MNT2,200,000, 3 children aged 7-12 years old were awarded iPad 4th gen, Playstation 4, Hoverboard, and 3 children aged 13-18 years old were awarded "For you" junior cards and vouchers worth MNT4,500,000.

OPENING OF ACCOUNT REMOTELY

The Government of Mongolia provided one-time assistance of MNT300,000 to the citizens of Mongolia during the pandemic. Within this framework, a program was developed to enable remote account opening, and a total of 13,288 customer requests were received and fully resolved during the pandemic restrictions.

13,288 customers › Accounts were Opened accounts remotely during lockdown

"MONGOLIAS WITH SAVINGS" CAMPAIGN

The "Mongolians with Savings" campaign was successfully organized for 13 weeks to raise awareness regarding the benefits of savings. Within the framework of the campaign, 1 customer was awarded with one bedroom apartment, 13 customers were awarded a travel pass to Turkey, 13 customers were awarded MNT1,000,000 and 130 customers were awarded MNT500,000.

1 customer	One bedroom apartment
13 customers	Trip to Turkey
13 customers	MNT 1,000,000 savings deposit
130 customers	MNT 500,000 savings deposit

BRANCH AVAILABILITY

In order to be more accessible to our customers and improve the availability of branches, we have duly opened the following branches:

- Shine Nisekh Branch at the newly established International Airport
- Maxmall branch at the Maxmall center
- Misheel branch at the Misheel walking street of the Misheel Furniture Store.
- Park-Od branch atthe Park-Od mall
- Diplomatic Section of the Shangri-la branch

To provide our customers with products and services that meet international standards in a comfortable and convenient environment, our Bank›s Juulchin, Khan-Uul, Torgon Khil, Baga Toiruu, Darkhan, Gurvan Gal, Tenger Plaza, Gandirs, Orgil Star, Business Center, Uildver, M Plaza, Dornogovi, Erdenet, Khutul, Zuun Kharaa, 220 Myangat branches and Department Store, 11th Khoroolol, Biocombinat, Kharkhorin, 4th district settlement centers were renovated and improved.

5 new branches were opened

22 branches and settlement centers were renovated

TDB ONLINE
ONLINE BANKING SERVICE

We are a leader in digitalization in the banking and financial sector of Mongolia. During the reporting year, we implemented technological and platform innovations aimed at making banking services easier and more secure in a way that is more convenient, accessible, and tailored to the needs of each customer. This will provide TDB with a technology and innovation base that will be more productive in the future.

During the reporting period, 833,451 customers in duplicate were registered in online products and services, which is more than 95% of the total active customers of the bank. This is an increase of 9% compared to the previous year. Moreover, during the reporting year, 97% of bank transactions were made online without the involvement of bank employees. The number of online transactions increased by 195% and the number of transactions increased by 89% from the previous year. This indicates that customers are actively using online services.

95% of the bank›s active customers are registered in online banking

97% of bank transactions are made online

The Bank has launched Online Kids, Online Junior user groupsfor children, and a user group for Japanese citizensto its main online channel TDB Online. We are also continuously upgrading our online services to make them faster and easier, and to deliver a wide range of banking products and services to our customers.

NEW FEATURES OF TDB ONLINE

- TDB Pay Wallet
- Send text messages to 11 foreign countries
- Pay taxes, customs and bills using the Corporate Gateway service
- WeChat Pay
- Credit lines became available to retail customers
- Make transactions using IBAN number
- Withdraw cash from ATMs using QR code
- Enhanced confidentiality of customer information
- Make transactions directly from your account statement

NEW FEATURES OF TDB ONLINE SERVICES RESULTED IN:

- Customers having easier access to banking products and services and increased consumption
- Design and usage have become easier, faster and clearer for customers
- Guides and recommendations for customers
- Updated UX/UI designs

CORPORATE
GATEWAY

It is a channel connection service that aims to simplify and automate the operational process through inter-system integration. All banking services are connected to the system through the API format. This will automate the manual operations of the customer, reduce the sequence of operations and save time and costs.. In 2021, we have connected banking services to the internal system of 68 service providers, bringing banking and payment services closer to 188 organizations and their customers.

THE TREND OF ONLINE BANKING SERVICES HAS INCREASED FROM THE PREVIOUS YEAR

Mortgage loan by	Number of savings accounts openedby	Number of current accounts by	Card orders by	Number of issued account statements by
58%↑	66%↑	99%↑	145%↑	261%↑

In 2021, we introduced a variety of promotional card products to the market based on the needs of our valued customers and the market, with a special focus on keeping the card design in line with international trends and maintaining the satisfaction of our customers.

ATM

In 2021, transfer limits at our ATMs to were increased reduce the traffic in branches during the COVID-19 curfew. As a result, customers no longer have to come to the branch to make high-amount transactions. Also, the use limit of cards has been updated to not count income transactions conducted from ATMs.

Within the framework of its strategic policy, the Trade and Development Bank is gradually increasing the infrastructure and software capacity of its banking system and introducing advanced technologies. We are aiming to create a comprehensive platform that integrates interconnected software and systems and to deliver our services with a high level of information security, privacy, and performance. Customers now have increased access to banking products and services at any time, regardless of the schedule and location of the Bank's branches.

CARD AND PAYMENT SERVICES

BRITTO card

This year marks the 20th anniversary of TDB becoming a member of the VISA Inc. On the occasion of its 20th anniversary, the Britto Visa card, which was created in collaboration with a world-famous artist Romero Britto, was launched on November 8, 2021 at the Shangri-La Hotel. The Bank has reaffirmed its leading position in the sector by officially displaying the intellectual property of a world-class artist on a payment card. In addition, we are working with more than 200 Top Mongolian companies to offer 3-10% cashbacks for Britto cardholders.

cashback

Kids Loyalty card for children, within the framework to introduce non-cash payment transactions for financial education

Student card in cooperation with IFE Student card

Introduced classic and gold International VISA cards in relation tothe Tokyo 2020 Olympic games

PROMOTIONAL CAMPAIGN

We have organized promotional campaigns among our customers in cooperation with Visa International and UnionPay,

WeChat Pay

For the first time in Mongolia, the Trade and Development Bank has joined the WeChatPay international payment service, which is based on China›s most popular WeChat messenger program, which brings together customers from all over the world.

The service does not require any additional devices such as POS terminals and Vasco devices, and is a new type of smart payment solution that allows you to receive international payments from Chinese customers through the "TDB POS" application installed on smart devices such as mobile phones and tablets.

ПОС

The following reforms have been made to provide fast banking services to customers and meet their needs:

- The POS machines started printing VAT receipts, when customers purchase goods and services.
- Introduced Android POS terminal.
- Started to develop software solutions for large gas stations in Mongolia in cooperation with Genesys LLC.

INTERNATIONAL BANKING AND FOREIGN RELATIONS

HIGHLIGHTS AND ACHIEVEMENTS

- TDBM has successfully financed the deliveries of new railway car import from Russian Federation. Transaction was implemented within the framework of the Russian state program to support export of high-tech products under the insurance coverage of the Russian Agency for Export Credit and Investment Insurance (JSC "EXIAR). This project played a key role for the development of Mongolian transportation sector.
- TDBM has successfully established a credit limit with Deutsche Bank, one of the world›s leading financial service providers. By means of this facility, our clients engaging in trade will have access to attractive trade finance products.
- TDBM has successfully established a credit limit with Crown Agents Bank and by means of this facility, our clients engaging in trade will have access to attractive trade finance products.
- TDBM has successfully established a business relationship with UKEF and IndiaEXIM Bank, respectively British and Indian development banks, to provide trade finance facility with more competitive price and tenor for our clients engaging in trade with the UK and India.
- TDBM has successfully established a credit limit with Deutsche Zentral-Genossenschaftsbank (DZ Bank) and by means of this facility, our clients engaging in trade will have access to attractive trade finance products.
- On December 10, 2021 TDBM has participated representing the Mongolian banking sector at the «Made in Russia» international forum organized by the Russian Export Center. During the panel discussion «10 years of export financing: lessons and prospects», TDBM has exchanged insights with representatives of foreign banks and financial institutions in Mongolian economy, relations with Russia and future opportunities.
- To support trade between Vietnam and Mongolia, the LC confirmation line with the Bank for Investment and Development of Vietnam was established.
- TDBM has successfully expanded cooperation with EXIM Bank of Hungary, concluded Memorandum of Understanding, to support trade financing business with Hungarian content.
- TDBM has successfully concluded a facility agreement to finance purchase of goods manufactured in Belarus with Development Bank of the Republic of Belarus. Within the scope of the facility, our clients, that are involved in trade with Belarusian enterprises and authorized sellers will have access to financing in USD, EUR, RUB and BYN.
- TDBM has successfully completed second documentary trade finance transaction (irrevocable reimbursement obligation issuance) with International Bank for Economic Co-operation (IBEC). Reimbursement obligation by IBEC was issued in favor of one of the leading European banks. These instruments enable parties to structure the transaction as conveniently as possible for both seller and buyer.
- TDBM has successfully provided financing for the purchase of industrial equipment from China with competitive terms using financing facility from China Development Bank (CDB)
- TDBM has successfully financed a purchase of wheat from Russia with the participation of Credit Bank of Moscow (CBM) and International Investment Bank.
- Huishang Bank (located in Anhui province, China) has approved a credit line to support trade finance transactions of our customers whom import from Chinese producers.

- A tenor of trade finance credit line obtained from Industrial and Commercial Bank of China (ICBC) has been extended for another year. Within the scope of this facility, we are able to provide financing with competitive pricing to our customers who conduct foreign trade.
- To promote bilateral trade between Taiwan and Mongolia, TDBM has successfully renewed Relending Facility with Export-Import Bank of the Republic of China. Within the scope of this facility, our customers, whom trade with Taiwanese companies, will have access to financing with relatively attractive terms.
- TDBM has successfully opened MNT account for Eximbank of Russia, a member of the Russian Export Center Group to support efficient, reliable and smooth foreign remittance.
- TDBM has successfully opened a HKDollar account with Deutsche Zentral-Genossenschaftsbank (DZ Bank) and a multi-currency account with Natixis Bank consisting of 11 currencies respectively to support efficient, reliable and smooth foreign remittance to our customers.

SUSTAINABLE FINANCING: HIGHLIGHTS AND ACHIEVEMENTS OF 2021:

- TDBM has disbursed MNT1.29 trillion (~USD 452.7 million) in line with the UN Sustainable Development Goals.
- TDBM was awarded as "Honorable Sustainable Finance Bank" award and was chosen to be the "Leading Sustainable Organization" throughout the year 2022.
- TDBM received "A" rating from the annual assessment conducted jointly by Bank of Mongolia (BoM), International Finance Corporation and Mongolian Sustainable Finance Association (MSFA), in terms of its implementation on sustainable financing operations.
- TDBM became a partner of the Climate Investment Platform, a joint initiative of the International Renewable Energy Agency (IRENA), United Nations Development Programme (UNDP), and Sustainable Energy for All (SEforALL), in collaboration with the Green Climate Fund (GCF).
- Successfully organized its first Green Finance Forum, with the participation of the UNDP, Bank of Mongolia, and other respective organizations.
- Developed its Sustainability Framework in alignment with the ICMA's Green Bond Principles 2018 ("GBP") and the Social Bond Principles 2020 ("SBP") and became the first bank in Mongolia to receive the Second party opinion (SPO) on its Sustainability Framework, provided by Vigeo Eiris (V.E.).
- Contributed to the development of the Emission Reduction (ER) tool of South Pole, in partnership with the Asia LEDS Partnership and MSFA to assess the emission reduction potentials of various projects in Mongolia.
- Successfully attracted USD 15 million from the International Investment Bank (IIB) to co-finance TDBM's Green Loan Program (GLP) and Women Entrepreneurship Support Program (WESP).
- Successfully attracted USD 10 million from the International Bank for Economic Co-operation (IBEC) to co-finance TDBM's Green Loan Program (GLP).
- Within the framework of its WESP, TDBM launched a brand-new "Women Entrepreneurship Support Loan" banking product targeting women-owned and women-led Mongolian SMEs.
- Within the framework of its GLP, TDBM also launched its brand-new "Green Business Loan" banking product to support green and sustainable business modules of its corporate and SME clients. TDBM's issued Green Business Loans for the year 2021 are expected to reduce a total of 41,044.408 tons of CO_2e greenhouse gas emissions annually.
- "Upscaling Sustainable and Green Finance Practices in Mongolia", Readiness program, TDBM jointly developed with Mongolian Sustainable Finance Association, was approved by the Green Climate Fund (GCF) in October 2021

- As a national direct access entity of Green Climate Fund, TDBM continues to work on the elaboration of concept notes of various climate projects to be implemented in Mongolia
- Cooperated with Business School of the University of Edinburgh, Scotland on Sustainability Reporting and Net-Zero Banking consulting project

HIGHLIGHTS OF ACHIEVEMENTS OF TOKYO REPRESENTATIVE OFFICE IN 2021

New investors from Japan

In 2021 Tokyo Representative Office of TDBM has supported eight companies to be incorporated in Mongolia. Those companies will operate in trade and information and communication technology (ICT) sectors and will contribute to further strengthen economic ties between the two countries.

New funding scheme

TDBM has obtained a loan with an amount of USD 1 million from Fintertech Co.,Ltd, a joint company of Daiwa Securities Group, the biggest securities company in Japan and Credit Saison, the biggest credit card company in Japan. The use of the proceeds of the loan is to finance projects and programs within the framework of "Sustainable Development Goal 17".

New "Platform" for small and medium-sized remitters from Japan to Mongolia

TDBM, its Tokyo Representative Office in cooperation with Queen Bee Capital established a new platform for small and medium size remitters in Japan for foreign remittance from Japan to Mongolia. Queen Bee Capital is duly licensed by Japanese financial authority as a fund transfer company and providing the most advanced KYC and AML procedure. Moreover, the Mongolian language website and iPhone application for remittance have been launched for convenience of Mongolian speakers in Japan.

TWO STEP LOAN facilitation.

We have successfully facilitated the two-step loan /TSL/ worth USD 4 million, which "LIGER HOLDING INTERNATIONAL Co., Ltd" (Japan) was lending to its subsidiary "IKH AGDIR NBFI LLC" (Mongolia).

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NOSTRO ACCOUNTS

№	Currency	Name of the bank	Location	SWIFT code
1	USD	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
2		AO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRUMM
3		BANK OF CHINA (HONG KONG) LIMITED	HONG KONG	BKCHHKHH
4		INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIAN, CHINA	ICBKCNBJNMA
5		KOOKMIN BANK	SEOUL, KOREA	CZNBKRSE
6		KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE
7		OVERSEA CHINESE BANKING CORPORATION LIMTED	SINGAPORE	OCBCSGSG
8		SBERBANK OF RUSSIA	MOSCOW, RUSSIA	SABRRUMM
9		RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM
10		EXIMBANK OF RUSSIA	MOSCOW, RUSSIA	EXIRRUMM
11		TRANSKAPITALBANK	MOSCOW, RUSSIA	TJSCRUMM
12		BANK OF INNER MONGOLIA	HUHEHAOTE, CHINA	HSSYCNBH001
13		MENGSHANG BANK	BAOTOU, CHINA	BTCBCNBJ
14		VTB BANK (PJSC)	MOSCOW, RUSSIA	VTBRRUMM
15		KASIKORNBANK PUBLIC COMPANY LIMITED	BANGKOK, THAILAND	KASITHBK
16		NOVIKOMBANK	MOSCOW, RUSSIA	CNOVRUMM
17		CROWN AGENTS BANK	SURREY, UK	CRASGB2L
18		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP
19		INTERNATIONAL BANK FOR ECONOMIC CO-OPERATION	MOSCOW, RUSSIA	IBECRUMM
20	EUR	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
21		BAYERISCHE LANDESBANK	MUENCHEN, GERMANY	BYLADEMM
22		ERSTE GROUP BANK AG	VIENNA, AUSTRIA	GIBAATWG
23		TRANSKAPITALBANK	MOSCOW, RUSSIA	TJSCRUMM
24		EXIMBANK OF RUSSIA	MOSCOW, RUSSIA	EXIRRUMM
25		CROWN AGENTS BANK	SURREY, UK	CRASGB2L
26		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP
27	JPY	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
28		MIZUHO CORPORATE BANK LTD.	TOKYO, JAPAN	MHCBJPJT
29		SUMITOMO MITSUI BANKING CORPORATION	TOKYO, JAPAN	SMBCJPJT
30		MUFG BANK	TOKYO, JAPAN	BOTKJPJT
31		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP
32	GBP	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
33		TRANSKAPITALBANK	MOSCOW, RUSSIA	TJSCRUMM
34		KOOKMIN BANK	SEOUL, KOREA	CZNBKRSE
35		CROWN AGENTS BANK	SURREY, UK	CRASGB2L
36		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP
37	CHF	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
38		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP
39	AUD	ANZ BANKING GROUP	MELBOURNE, AUSTRALIA	ANZBAU3M
40		COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
41		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP
42	KRW	KOOKMIN BANK	SEOUL, KOREA	CZNBKRSE
43		KOREA EXCHANGE BANK	SEOUL, KOREA	KOEXKRSE
44	CNY	AGRICULTURAL BANK OF CHINA	HUHEHAOTE, CHINA	ABOCCNBJ050
45		BANK OF CHINA (HONG KONG) LIMITED	HONG KONG	BKCHHKHH
46		BANK OF CHINA	HUHEHAOTE, CHINA	BKCHCNBJ880
47		CHINA CONSTRUCTION BANK CORPORATION	ERLIAN, CHINA	PCBCCNBJNME
48		INDUSTRIAL AND COMMERCIAL BANK OF CHINA	ERLIAN, CHINA	ICBKCNBJNMA
49		SHANGHAI PUDONG DEVELOPMENT BANK	SHANGHAI, CHINA	SPDBCNSH
50		BANK OF INNER MONGOLIA	HUHEHAOTE, CHINA	HSSYCNBH001
51		MENGSHANG BANK	BAOTOU, CHINA	BTCBCNBJ
52		COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
53		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP
54	CAD	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
55		NATIONAL BANK OF CANADA	MONTREAL, CANADA	BNDCCAMMINT
56		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP

57	RUB	AO UNICREDIT BANK	MOSCOW, RUSSIA	IMBKRUMM
58		SBERBANK	MOSCOW, RUSSIA	SABRRU66
59		RUSSIAN AGRICULTURAL BANK	MOSCOW, RUSSIA	RUAGRUMM
60		TRANSKAPITALBANK	MOSCOW, RUSSIA	TJSCRUMM
61		VTB BANK (PJSC)	MOSCOW, RUSSIA	VTBRRUMM
62		EXIMBANK OF RUSSIA	MOSCOW, RUSSIA	EXIRRUMM
63		PROMSVYAZBANK	MOSCOW, RUSSIA	PRMSRUMM
64		NOVIKOMBANK	MOSCOW, RUSSIA	CNOVRUMM
65		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP
66		INTERNATIONAL BANK FOR ECONOMIC CO-OPERATION	MOSCOW, RUSSIA	IBECRUMM
67	NZD	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	WELLINGTON, NEW ZEALAND	ANZBNZ22
68		COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
69	HKD	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
70		DZ BANK AG	HONG KONG	GENOHKHH
71	SGD	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
72		OVERSEA CHINESE BANKING CORPORATION LIMTED	SINGAPORE	OCBCSGSG
73		NATIXIS BEYOND BANKING	PARIS, FRANCE	NATXFRPP
74	SEK	COMMERZBANK AG	FRANKFURT, GERMANY	COBADEFF
75		NORDEA BANK AB	STOCKHOLM, SWEDEN	NDEASESS
76	TRY	TURKIYE IS BANKASI	ISTANBUL, TURKEY	ISBKTRIS
77	THB	KASIKORNBANK PUBLIC COMPANY LIMITED	BANGKOK, THAILAND	KASITHBK

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CUSTOMER SERVICE

As part of our strategic goal of becoming a customer-centric bank, in 2021, we aimed to provide our customers with user-friendly and fast products and services through remote channels to maintain high satisfaction during COVID-19 restrictions. Moreover, we have revised our customer identification and cooperation procedures to provide services that exceed expectations and increase effective cooperation.

According to the decision of the State Emergency Commission, during the curfew of the first half of 2021, bank branches were not working, and customer›s information were verified and updated through remote channels providing customers access to banking services 24/7.

In 2021, a total of 27,000 account statements of 11 types, confirmed by QR codes, were obtained remotely using online banking without visiting the bank branches. This is an increase of 177% compared to 2020, while customer information updates have increased by 930% compared to the same period last year.

In addition, regular disinfection of bank units operating after the quarantine was carried out to ensure the health and safety of our customers and employees, and to provide prompt banking services.

In order to protect the interests of each customer, prevent any financial risks, and provide financial education, we have successfully participated in the public awareness campaign organized by the Bank of Mongolia and commercial banks against online scams and provided advice and information to customers regularly. During the reporting period, a total of 12,000 customers were protected from potential financial losses equivalent to MNT 2.2 billion, and 8,000 customer requests and suggestions were resolved promptly.

As a bank participating in Automatic Clearing House within the framework of introducing the Central Addressing module and IBAN /International bank account number/ projects implemented by the Bank of Mongolia, all registered customers› accounts have been merged into the Unified Account,allowing customers to see recipient's name in inter-bank transfers. In addition, the new IBAN numbering system allows customers to make domestic and international payments in accordance with its standards, and we are working together to further improve it.

In 2021, the Bank has redefined the image of its front-office staff, in collaboration with a national manufacturer "Michel&Amazonka" by redesigning their uniforms including more traditional elements, and began to serve its customers in a new way on its 31st anniversary.

In order to further improve our customer service, we are planning to implement long-term projects and programs aimed at improving customer service and make investments based on international standards and information technology.

24/7

Resolved 8000 customer requests 24/7

27,000 account statements of 11 types were obtained remotely.

12 thousand customers protected from potential financial losses equivalent to MNT 2.2 billion

Public awareness campaign

TREASURY MANAGEMENT

Foreign exchange market

As a leading bank in local foreign exchange market, the Bank has successfully fulfilled its responsibility to sustainably meet the foreign exchange needs of its customers and citizens, who play a key role in Mongolia›s economy, foreign trade, exports and imports, during the COVID-19 pandemic situation. The Bank actively promoted its online banking foreign currency trading feature to its customers, which allows them to remotely make foreign exchanges using flexible rates.

In addition, to support sustainable development and green economy, the Bank provided long term green-lending without foreign exchange risk by establishing long-term swap agreement with its low-cost borrowings from foreign financial institutions and banks.

Online currency transfer increased by 126%

Gold and precious metals market

In the reporting year, the global market had faced economic setback due to social restrictions, border closures and inflation caused by supply chain disruptions, hence the high fluctuation of commodity prices. Despite the circumstances, Bank of Mongolia purchased 20.8 metric tons of physical gold and the Bank contributed by increasing its physical gold market share.

Within the framework of Bank of Mongolia's Gold-2 program, designed to finance advance payment, working capital and long-term or investment financing of gold mining companies through commercial banks, the Bank successfully participated in majority of the financing activities. Furthermore, during this period, the Bank introduced a financing scheme used in developed countries to the local market by offering stream financing to gold mining companies.

Money market

During the reporting period, the Bank actively participated in economic recovery programs and activities implemented by regulatory authorities and the Government by increasing its lending, and consistently meeting the reserve requirements and liquidity ratio set by the Bank of Mongolia.

The Bank has maintained its leading position in the domestic money market and as of the end of 2021, Bank held 23.2 percent of liquid securities in the domestic market.

23.2% of liquid securities in the domestic market

Asset and Liability management

The main asset and liability management objective during the reporting period was to maintain stable and adequate volume of net interest income and manage long-term risks associated with economic setbacks and extreme volatility in the market. To achieve this objective, we applied comprehensive analytical tools, including liquidity forecasts, interest rate sensitivity analysis and projections. Furthermore, we strove to enforce the most efficient balance sheet principles to improve the Bank's risk carrying capacity.

To prevent liquidity difficulties in the lingering pandemic environment, our team constantly monitored the BASEL-III metrics: liquidity coverage ratio, time to wall, net stable funding ratio, and successfully fulfilled the set requirements.

Custodian service

In 2021, the number of custodian customers and safekeeping assets have increased as a result of the Bank›s continuous efforts to flexibly accommodate the needs of its customers.

Furthermore, the Bank has provided comprehensive custodian services to meet the needs of companies that are newly licensed for investment management, and contributed to the development of local laws and regulations related to custodian services based on international practice and research.

RISK MANAGEMENT FRAMEWORK

Trade and Development Bank of Mongolia has fully adopted the Enterprise Risk Management Framework (ERM) and applies it across its operations. The ERM provides the Bank with an effective mechanism for continuous monitoring and improvement of the risk environment, promotes risk awareness, knowledge, reliability, and encourages better strategic decision making. The Bank's shareholders determine the Bank's strategy, and critical strategic decisions are made from shareholders' meetings. In line with the necessary strategic decisions, risk governance is maintained through delegation to the Board of Directors and the Risk Management Committee.

The Bank's Board of Directors approves risk policy documents such as sound risk management framework and risk appetite statement (the maximum risk that the Bank accepts). Chief Risk Officer is responsible for day-to-day risk management and reports directly to the Board of Directors and the Risk Management Committee. Chief Risk Officer is the head of the centralized risk management function, which is the second line of the 'three lines of defense model" that the Bank implements. The following departments and units run the centralized risk management function:

- Risk Management Policy and Validation Department; and its subunit, Market and Liquidity Risk Management Unit;
- Credit Underwriting Department;
- Loan Administration Unit;
- Operational Risk Management Department; and its subunit, Digital Risk Management Unit;
- Compliance Unit

These departments and units, which are the second line of the defense model, are responsible for the Bank's risk management processes, including daily risk monitoring, risk identification, risk assessment, risk reporting and risk mitigation through the risk appetite statement and internal procedures. Within the framework of continuous improvement of the risk management system, the Bank's activities are consistent with risk management standards and recommendations issued by international and national supervisory authorities.

Business units (the first line of the defense model) have responsibility for risk management within their areas of accountability, while the Internal Audit Department (the third line of the defense model) provides independent assurance for the effectiveness of the Bank's risk management.

Risk management policy and validation

Risk Management Policy and Validation Department (RMPVD) supports the Bank's operation with clear and effective risk policies directives; and constantly improves the Bank's risk governance and risk management framework, aligning with Basel standards, international best practices and standards set by the national supervisory authority.

The risk appetite framework, a crucial component of Pillar 2 of Basel II, has been fully embedded in the Bank's operation during the reporting year. Key risks were monitored regularly within the risk appetite metrics and limits.

Capital adequacy ratios and liquidity ratios are closely monitored within the risk appetite statement tailored to the Bank's business plan. Also, the Bank regularly performs internal stress tests to ensure that adequate liquid assets and capital buffer are held for continuous operation of the Bank in a downturn.

The credit rating/credit scoring model has been fully introduced to retail segment loan processing. This model uses the Bank's historical data and is based on machine learning. Now, customer-specific credit analysis and the loan settlement process are quick and more effortless, offering scoring based loan terms and convenient services to customers.

To enhance the Bank's risk governance and credit risk management, constant improvements have been made to existing internal directives and loan processing procedures, and also Credit Underwriting Standards and Credit Monitoring Standards have been developed during this reporting year. As a result, bank branches› loan analysis, disbursement, repayment, and daily monitoring have become more efficient and precise. It was also crucial step in decreasing the credit risk.

Market and liquidity risk management

The Market and Liquidity Risk Management Unit (MLRMU) manages interest rate risk, exchange rate risk and liquidity risk; introduces approaches and models of international benchmarks for assessing these risks; reports analytical reports on potential threats to the management team for risk monitoring purposes. Moreover, MLRMU conducts extensive international and domestic market research, forecasts crucial industrial sectors of the economy, and regularly updates relevant decision-making parties within the Bank.

MLRMU constantly monitors market and liquidity risks within the Board-approved risk appetite and prudential ratios set by the Bank of Mongolia. This includes:

- The Bank's liquidity risk is measured and reported weekly, using the behavioral cash flow GAP report and Basel recommended Time to Wall, LCR, NSFR ratios. MLRMU makes timely recommendations based on the results of the liquidity report.
- The Bank's market risk is measured and managed daily, using Value at Risk (VaR). In addition, Basel III standardized approach for market risk, the Sensitivity-based method, is newly adopted into the market risk assessment process during the reporting year.
- The Bank's interest rate risk in the banking book (IRRBB) is measured and reported monthly, using Duration GAP and Economic Value of Equity (EVE) indicators. During the reporting period, scenarios used for ΔEVE indicator were updated according to the Basel III standard.
- Settlement and pre-settlement limits are determined based on the credit rating of each client and its sovereign risk; or based on an internally developed counterparty assessing model.

INFORMATION TECHNOLOGY

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

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

COBIT 5 INTERNATIONAL IT GOVERNANCE SYSTEM

Conducted an external IT audit based on the COBIT5 international IT governance system and met regulatory requirements. As a result of the audit, it was concluded that the COBIT5 process evaluation has increased significantly compared to the previous audit and the Bank›s information technology structure, responsibilities, and management process have improved.

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD

Bank's main software system, database, server, service, devices and its operating system, information security, card encryption on employee's systems are successfully verified by PCI-DSS (Payment Card Industry Data Security Standard) standards for the 5th year.

CENTRAL ADDRESSING MODULE (CAM)

The introduction of Dell IDPA technology solution at the Bank›s backup data center. As a result, the databases and application systems used in banking operations became able to store their reliable resources in the main and backup data centers of the bank using advanced solutions and, if necessary, it became possible to perform recovery operations in any data center in a short time.

IDPA TECHNOLOGY

Introduced SWIFT GPI service of SWIFT international transfer to our operations. This brought the advantage of real-time tracking of international transfers, sending and receiving recall requests, reducing the processing time, and informing customers about the transaction on a regular basis.

Improved the database performance of the Bank›s basic registration system, and improved its load-bearing capacity and reliability. As a result, database performance has increased by 30 percent and sustainability has improved.

As part of the Bank of Mongolia›s efforts to convert MNT cards into EMV chip technology, TDB has taken the lead and successfully certified MNT chip cards via a third party, and introduced a domestic MNT EMV chip card on October 1, 2021. Within this framework, necessary configurations were made for all ATMs and POS terminals of TDB to fully support the MNT EMV chip cards.

In 2020, an external audit conducted a Pin Security Audit, and in accordance with the recommendations of the audit, in 2021, the security key of the online card system was changed to "Keyblock". As a result, the security of payment cards, ATMs and POS devices have been improved and is in line with international standards.

The customers are now able to receive the OTP activation code online through TDB Online, which was previously possible only by visiting the branches of the Bank. This automated the problems faced by customers during the pandemic and curfew, and reduced the workload of the branch.

TDB Online has added a feature to re-order cards in the card ordering section. With the addition of this feature, instead of having to go to the branch in person, it is now possible to re-order a card from TDB Online in case the customer discards or damages the card.

Introduced TDB Wallet to TDB Online. As part of thisfeature, customers will be able to register any bank card in their Wallet and make transactions with it free of charge.

Automated loan operations and introduced a customer credit scoring calculation model based on artificial intelligence (AI) and machine learning. This allows the Bank to offer loan terms that are appropriate to the customer›s financial performance, shorten the loan processing time, reduce employee dependence, and reduce the risk of non-performing loans.

Line loan services used by SMEs have been made available to SMEs and can now be resolved remotelythrough TDB Online.

Introduced EAPP online request system (https://www.cardcentre.mn/eapp/), a unified portal for receiving customer feedback. This would allow citizens to register as a bank customer, our customers make payroll loan requests and loan extension requests, order a POS terminal, and the Bank to resolve customer requests promptly.

(https://www.cardcentre.mn/eapp/)

In connection with the spread of COVID-19, the decision to defer the repayment of mortgage loans was extended, the loan deferral process was automated, and necessary arrangements for deferring loan repayments were made for a total of 18,713 loan accounts .

Approximately 900 new POS devices were put into operation and handed over to customers.

In 2021, TDB conducted two tests of the readiness of the Bank›s backup data center, successfully testing and verifying the activities necessary to ensure the continuity and reliability of the Bank›s operations, such as business operations, databases, and SWIFT international transfer systems.

shoppy.mn In cooperation with Shoppy LLC, the Bank has introduced the opportunity for online loan services to organizations that use the platform. As a result, our customers are now able to get a wide range of products that are closer to their needs on more favorable loan terms. In addition, "Online Consumer Green Loan" product was introduced to offer customers special loan terms when they purchase environmentally friendly products. Accordingly, the Bank is now able to provide online loan services through 17 shopping sites while our customers can purchase environmentally friendly products on more favorable loan terms. In 2021, the number of resolved online loan applications with Shoppy LLC increased by 117 percent.

In the reporting year, 96.7 percent of all transactions were made through electronic channels, which is an increase of 1.7 percent from the previous year, due to the emphasis on information system improvement, automation and continuous reliability.

96.7% of all transactions were made online

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

Audited Financial Statements
31 December 2021

Building a better
working world

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General information

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

We, Erdenebileg Doljin, being the Chairman of the Board of Directors of Trade and Development Bank of Mongolia LLC (the "Bank"), Orkhon Onon, being the Chief Executive Officer, and Enkhtuya Dulamjav, being the Chief Financial Officer, primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

Erdenebileg Doljin
Chairman of the Board of Directors

Orkhon Onon
Chief Executive Officer

Enkhtuya Dulamjav
Chief Financial Officer

Trade & Development Bank LLC

Ulaanbaatar, Mongolia

Date: 31 March 2022

Ernst & Young Mongolia Audit LLC
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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Trade and Development Bank of Mongolia LLC

Opinion

We have audited the financial statements of Trade and Development Bank of Mongolia LLC (the "Bank"), which comprise the statement of financial position as at 31 December 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 International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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INDEPENDENT AUDITOR'S REPORT (CONTD.)

To the shareholders of Trade and Development Bank of Mongolia LLC

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Other Matter

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

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC

Certified Public Accountants

Signed by

Mandakhbayar Dorjbat
Director

Approved by

Adrian Chu
Partner

Ulaanbaatar, Mongolia
Date: 31 March 2022

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2021

	Notes	2021 MNT'000	2020 MNT'000
Interest income calculated using the effective interest method	5	570,786,451	693,931,310
Other interest and similar income	5	26,321,014	18,648,135
Interest and similar expense	6	(405,636,562)	(506,145,302)
Net interest income		**191,470,903**	**206,434,143**
Fee and commission income	7	65,236,995	54,072,967
Fee and commission expense	7	(20,800,855)	(14,708,811)
Net fee and commission income		**44,436,140**	**39,364,156**
Trading and other operating expense	8	(13,405,598)	(21,075,742)
Total operating income		**222,501,445**	**224,722,557**
Credit loss reversal/(expense)	9	57,705,549	(136,115,283)
Net operating income		**280,206,994**	**88,607,274**
Operating expenses	10	(130,938,563)	(131,602,195)
Share of loss of an associate	16	(28,728,932)	(14,501,873)
Profit/(Loss) before tax		**120,539,499**	**(57,496,794)**
Income tax expense	11.1	(15,729,066)	(3,296,265)
Profit/(Loss) for the year		**104,810,433**	**(60,793,059)**
Earnings per share (MNT)			
Basic and diluted earnings/(loss) per share	12	21,803	(16,546)
Other comprehensive income/(loss) (net of tax):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Net change in fair value of debt instruments at fair value through other comprehensive income	32	(1,266,566)	259,785
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Revaluation (loss)/gain on equity instruments at fair value through other comprehensive income	32	(18,633,681)	2,074,620
Revaluation of property and equipment	32	14,843,570	–
Other comprehensive income/(loss)		**(5,056,677)**	**2,334,405**
Total comprehensive income/(loss) for the year, net of tax		**99,753,756**	**(58,458,654)**

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of financial position

At 31 December 2021

	Notes	31 December 2021 MNT'000	31 December 2020 MNT'000	1 January 2020 MNT'000
ASSETS				
Cash and balances with Bank of Mongolia	**13**	976,352,237	856,797,775	1,095,813,724
Due from other banks and financial institutions	**14**	504,417,550	570,001,654	300,933,709
Financial assets at fair value through profit or loss	**15**	199,870,221	127,666,125	97,023,096
Equity instruments at fair value through profit or loss	**15**	–	–	31,035,000
Debt instruments at fair value through other comprehensive income	**15**	1,754,434,647	714,034,384	628,163,257
Equity instruments at fair value through other comprehensive income	**15**	57,662,947	34,422,196	26,254,377
Debt instruments at amortised cost	**15**	590,679,288	835,033,030	1,048,988,620
Investment in associate	**16**	506,297	40,813,475	–
Derivative financial instruments	**17**	101,647,498	89,371,192	494,861,756
Loans and advances to customers	**18**	4,588,465,405	4,025,127,248	3,468,609,901
Other assets	**19**	200,051,593	125,974,796	131,193,070
Investment property	**20**	79,902,629	148,990,218	80,897,528
Assets held for sale	**21**	3,605,964	4,138,693	–
Property and equipment	**22**	480,838,433	458,644,011	392,311,221
Right-of-use assets	**23**	7,902,693	10,132,850	12,717,699
Intangible assets	**24**	2,334,413	4,374,414	5,870,617
TOTAL ASSETS		**9,548,671,815**	**8,045,522,061**	**7,814,673,575**
LIABILITIES				
Due to banks and other financial institutions	**25**	13,938,713	102,946,144	189,383,778
Repurchase agreements	**26**	289,792,528	224,287,616	65,013,356
Due to customers	**27**	6,266,310,519	5,311,418,183	3,821,434,134
Derivative financial instruments	**17**	78,035,961	99,723,102	76,226,529
Borrowed funds	**28**	1,408,740,129	558,736,354	759,290,707
Sub-ordinated debt		–	–	150,046,057
Debt securities issued	**29**	160,140,274	160,140,274	1,536,488,710
Other liabilities	**30**	289,069,965	644,264,706	512,311,798
Lease liabilities	**23**	8,999,663	11,384,522	13,591,398
Income tax liabilities	**11.2**	12,499,999	111,957	–
Deferred tax liabilities	**11.3**	1,035,344	2,155,509	–
TOTAL LIABILITIES		**8,528,563,095**	**7,115,168,367**	**7,123,786,467**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				
Share capital	**31**	323,809,925	72,723,171	50,000,707
Share premium	**31**	–	251,086,754	19,298,006
Other reserves	**31**	210,143,332	220,381,635	178,559,796
Retained earnings		486,155,463	386,162,134	443,028,599
TOTAL EQUITY		**1,020,108,720**	**930,353,694**	**690,887,108**
TOTAL LIABILITIES AND EQUITY		**9,548,671,815**	**8,045,522,061**	**7,814,673,575**

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

Statement of changes in equity

For the year ended 31 December 2021

	Share capital MNT'000 (Note 31)	Share premium MNT'000 (Note 31)	Other reserves MNT'000 (Note 31)	Retained earnings MNT'000	Total equity MNT'000
At 31 December 2019	50,000,707	19,298,006	151,476,785	482,926,897	703,702,395
Impact of adoption of IFRS 9	–	–	(321,974)	(12,493,313)	(12,815,287)
Movement on regulatory reserve*	–	–	27,404,985	(27,404,985)	–
At 1 January 2020	50,000,707	19,298,006	178,559,796	443,028,599	690,887,108
Profit for the year	–	–	–	(60,793,059)	(60,793,059)
Other comprehensive income	–	–	2,334,405	–	2,334,405
Total comprehensive income	**–**	**–**	**2,334,405**	**(60,793,059)**	**(58,458,654)**
Realised revaluation reserve	–	–	(17,689)	17,689	–
Transfer from UBCB (Note 3)	–	–	43,414,028	–	43,414,028
Movement on regulatory reserve*	–	–	(3,908,905)	3,908,905	–
Issuance of additional shares in relation to the Merger (Note 3)	9,973,842	94,537,126	–	–	104,510,968
Issuance of additional shares (Note 31)	12,748,622	137,251,622	–	–	150,000,244
At 31 December 2020 and 1 January 2021	**72,723,171**	**251,086,754**	**220,381,635**	**386,162,134**	**930,353,694**
Profit for the year	–	–	–	104,810,433	104,810,433
Other comprehensive income	–	–	(5,056,677)	–	(5,056,677)
Total comprehensive income	**–**	**–**	**(5,056,677)**	**104,810,433**	**99,753,756**
Realised revaluation reserve	**–**	**–**	(32,613,320)	32,613,320	–
Dividend (Note 31)	–	–	–	(9,998,730)	(9,998,730)
Movement on regulatory reserve*	–	–	27,431,694	(27,431,694)	–
Increase in ordinary shares	251,086,754	(251,086,754)	–	–	–
At 31 December 2021	**323,809,925**	**–**	**210,143,332**	**486,155,463**	**1,020,108,720**

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

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

Statement of cash flows

For the year ended 31 December 2021

	Notes	2021 MNT'000	2020 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		120,539,499	(57,496,794)
Adjustments for:			
Changes in fair value of financial derivatives		(21,067,389)	7,287,137
Gain on disposal of property and equipment	**8**	(10,997,768)	(169,780)
(Gain)/Loss on disposal of assets-held-for sale	**8**	(3,391,791)	(3,022,069)
Valuation gain on investment property	**8**	(433,617)	(20,122,404)
(Gain)/Loss on disposal of foreclosed properties, net	**8**	(204,152)	365,423
Gain on disposal of investment properties	**8**	(6,063,066)	–
Gain on partial disposal of investment in associate	**8**	(5,434,794)	–
Net modification loss from project mortgage loans	**8**	6,754,302	5,592,847
(Gain)/Disposal on disposal of debt instrument measured at FVOCI	**8**	509,109	(3,585,857)
Impairment of foreclosed properties	**8**	27,650,688	–
Modification loss on other loans receivables	**8**	17,805,897	–
Loss on initial recognition of equity investment measured at FVOCI	**8**	14,508,803	–
Write-off of foreclosed properties	**8**	2,123,116	11,246,598
Loss from revaluation of properties	**8**	1,745,195	–
Deemed gain on investment in associate	**8**	–	(768,590)
Fair value change of equity instrument measured at FVTPL	**8**	–	4,158,690
Loss on disposal of FVTPL investment	**8**	–	41,282
Share of loss in associate	**16**	28,728,932	14,501,873
Credit loss (reversal)/expense	**9**	(57,705,549)	136,115,283
Depreciation of property and equipment	**10**	13,653,950	12,977,972
Amortisation of intangible assets	**10**	2,373,456	2,421,188
Depreciation of rights-of-use assets	**10**	5,128,494	4,865,339
Property and equipment written off	**10**	154,371	34,119
Intangible assets written off	**10**	–	346,076
Interest expense of borrowed funds	**6**	116,374,067	119,439,476
Interest expense of sub-ordinated debts	**6**	–	20,666,526
Interest expense of debt securities issued	**6**	12,800,000	70,089,966
Accretion of interest on lease liability	**6**	1,219,631	1,821,379
Non-cash items arising from financing activities		(2,278,405)	31,862,218
Operating profit before working capital changes		**264,492,979**	**358,667,898**
Changes in operating assets and liabilities:			
Statutory deposits with BoM		(124,050,688)	(128,337,531)
Due from other banks and financial institutions		(15,513,234)	65,395,769
Loans and advances to customers		(501,093,613)	150,256,004
Assets-held-for sale		3,873,960	5,953,514
Other assets		(61,028,385)	21,112,053
Due to banks		(89,007,431)	(104,335,246)
Repurchase agreements		65,504,912	150,847,622
Due to customers		954,892,336	681,415,078
Other liabilities		(348,300,156)	(29,327,557)
Cash generated from operations		**149,770,680**	**1,171,647,604**
Income taxes paid		–	(5,470,061)
Interest portion of the lease liability paid		(1,219,631)	(1,821,379)
Interest paid on borrowed funds		(105,600,240)	(123,622,668)
Interest paid on sub-ordinated debt		–	(20,712,359)
Interest paid on debt securities issued		(12,800,000)	(78,299,373)
Net cash flows generated from operating activities		**30,150,809**	**941,721,764**

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

	Notes	2021 MNT'000	2020 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash addition as a result of the Merger	3	–	7,705,567
Purchase of financial investments		(1,422,590,074)	(149,727,966)
Proceeds from disposal of financial investments		930,207,988	368,144,729
Payment for gold prepayment agreement		(14,244,000)	–
Proceeds from disposal of property and equipment		15,976,615	3,770,943
Purchase of property and equipment	22	(25,018,146)	(4,919,708)
Proceeds on disposal of investment properties		10,305,493	–
Purchase of intangible assets	24	(333,455)	(381,917)
Net cash flows generated from/(used in) investing activities		**(505,695,579)**	**224,591,648**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from drawdown of borrowed funds		1,096,949,851	359,758,646
Repayment of borrowed funds		(255,441,498)	(596,544,559)
Dividend paid	31	(9,998,730)	
Net proceeds from maturity of derivative financial instruments		–	421,700,000
Repayment of debt securities		–	(1,397,320,000)
Repayment of sub-ordinated debts	31	–	(150,000,224)
Proceeds from issuance of shares	31	–	150,000,244
Payment of principal portion of lease liabilities		(5,230,452)	(4,317,826)
Net cash flows generated from/(used in) financing activities		**826,279,171**	**(1,216,723,719)**
Net increase/(decrease) in cash and cash equivalents		**350,734,401**	**(50,410,307)**
Cash and cash equivalents brought forward	13	1,376,373,291	1,426,783,598
Cash and cash equivalents carried forward	13	**1,727,107,692**	**1,376,373,291**
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		412,379,234	(483,879,585)
Interest received		646,982,797	542,726,441
NON-CASH ACTIVITIES			
Additions to right-of-use assets and lease liabilities	23	2,636,768	1,682,331
Modification of leases	23	575,218	–
Foreclosure of collaterals		20,404,728	52,892,702
Additions to property and equipment		34,069,935	–
Consideration for disposal of property and equipment		33,789,205	–
Consideration for disposal of investment property		16,655,777	–
Transfer from financial investments to investment in associates	16	–	26,876,310

Reconciliation of changes in liabilities arising from financing activities:

Lease liabilities	2021 MNT'000	2020 MNT'000
At 1 January	11,384,522	13,591,398
Non-cash additions	2,636,768	1,682,331
Transfer from UBCB	–	970,544
Lease modification	575,218	–
Termination of lease	(366,393)	(541,925)
Interest expense during the year	1,219,631	1,821,379
Interest portion of the lease liabilities paid	(1,219,631)	(1,821,379)
Principal portion of lease liabilities paid	(5,230,452)	(4,317,826)
At 31 December	**8,999,663**	**11,384,522**

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

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

	Borrowed funds MNT'000	Sub-ordinated debts funds MNT'000	Debt securities issued MNT'000
At 1 January 2020	**759,290,707**	**150,046,057**	**1,536,488,710**
New disbursement	359,758,646	–	–
Transfer from UBCB (Note 3)	37,733,505	–	–
Repayment	(596,544,559)	(150,000,224)	(1,397,320,000)
Interest repayment	(123,622,668)	(20,712,359)	(78,299,373)
Net repayment	(322,675,076)	(170,712,583)	(1,475,619,373)
Deferred upfront fee	(7,538,698)	–	–
Foreign exchange movement	10,219,945	–	29,180,971
Non-cash items arising from financing activities	2,681,247	–	29,180,971
Interest expense accrued and deferral amortisation	119,439,476	20,666,526	70,089,966
At 31 December 2020 and 1 January 2021	**558,736,354**	**–**	**160,140,274**
New disbursement	1,096,949,851	–	–
Repayment	(255,441,498)	–	–
Interest repayment	(105,600,240)	–	(12,800,000)
Net repayment	735,908,113	–	(12,800,000)
Deferred upfront fee	(2,127,043)	–	–
Foreign exchange movement	(151,362)	–	–
Non-cash items arising from financing activities	(2,278,405)	–	–
Interest expense accrued and deferral amortisation	116,374,067	–	12,800,000
At 31 December 2021	**1,408,740,129**	**–**	**160,140,274**

1. Corporate information

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

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

On 26 June 2020, it was announced that the Bank and Ulaanbaatar City Bank LLC ("UBCB"), were officially merged under BoM resolution no. H/100 dated 23 June 2020 under the Banking law. The merger was governed by a Merger Agreement between the Bank and UBCB of which all assets, liabilities, reserves and branches of UBCB were to be merged into the Bank, taking effect from 26 June 2020 (the "Merger") (See Note 3).

As at 31 December 2021, the Bank is 64.00% owned by Globull Investment and Development PTE Ltd ("Globull"), which is incorporated in Singapore. Globull is 92.20% owned by US Global Investment LLC (incorporated in the United States of America) and 7.80% owned by Mr. Erdenebileg Doljin. (See Note 31 for the shareholders of the Bank and percentage of ownership). US Global Investment LLC is wholly owned by Mr. Erdenebileg Doljin.

The financial statements for the year ended 31 December 2021 were authorised for issue in accordance with the resolution of the board of directors on 31 March 2022.

2. Significant accounting policies

2.1 Basis of preparation and statement of compliance

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

For the previously issued financial statements for the year ended 31 December 2020, the Bank prepared and presented its financial statements in accordance with the Bank's accounting policies, which were formulated in accordance with IFRSs, as issued by the IASB, except for the adoption of IFRS 9 *Financial Instruments*, of which the Bank applied the modifications of the BoM provisioning and classification guidelines for the impairment and classification of financial assets.

As at 31 December 2021, the Bank has adopted IFRS 9 for the first time. Therefore, these financial statements for the year ended 31 December 2021 are the first time the Bank has prepared in accordance with IFRSs. Refer to Note 2.5 for information on how the Bank has adopted IFRSs.

The financial statements of the Bank have been prepared on a historical cost basis, except for debt and equity instruments at fair value through other comprehensive income ("FVOCI"), financial assets at fair value through profit and loss ("FVTPL"), derivative financial instruments, buildings and land that are measured at fair value subsequent to its acquisition, investment property, and precious metal that is measured at fair value. The financial statements are presented in Mongolian Togrog, which is denoted by the symbol MNT, and all values are rounded to the nearest thousands, except when otherwise indicated.

2.2 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 37.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts without being contingent on a future event and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss and other comprehensive income ("OCI") unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.3 Standards issued but not yet effective

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

- IFRS 17 — *Insurance Contracts*[1]
- Amendments to IFRS 17 — *Insurance Contracts*[1]
- Amendments to IAS 1 — *Classification of Liabilities as Current or Non-current*[1]
- Amendments to IFRS 3 — *Reference to the Conceptual Framework*[2]

2.3 Standards issued but not yet effective (contd.)

• Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
• Amendments to IAS 37	*Onerous Contracts – Costs of Fulfilling a Contract*[2]
• IFRS 1 First-time adoption of International Financial Reporting Standards	*Subsidiary as a first-time adopter*[2]
• IFRS 9	*Financial instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*[2]
• IAS 41 Agriculture	*Taxation in fair value measurements*[2]
• Amendments to IAS 8	*Definition of Accounting Estimates*[1]
• Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]

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

IFRS 17 – Insurance contracts

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

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

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

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

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

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

Amendments to IFRS 17 Insurance Contracts

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

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments have no impact on the Bank`s financial statements.

2.3 Standards issued but not yet effective (contd.)

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.

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.

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

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

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

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

IAS 41 Agriculture – Taxation in fair value measurements

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

2.3 Standards issued but not yet effective (contd.)

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 to determine the impact they will have on the Bank's accounting policy disclosures.

2.4 Summary of significant accounting policies

Foreign currency translation

The financial statements are presented in Mongolian Togrog ("MNT"), which is also the Banks functional currency. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising from settlement or translation of monetary items are taken to the profit or loss.

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

Recognition of interest income

The effective interest rate method

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

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

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

2.4. Summary of significant accounting policies (contd.)

Recognition of interest income (contd.)

Interest and similar income/expense

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

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

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

Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in “Trading and other operating income/expense”.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

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

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

Fees and commission income

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

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

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

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

Fee income from providing transaction services

Fees arising from negotiations or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees to components of fees that are liked to a certain performance obligation are recognised after fulfilling the corresponding criteria of the performance.

Fee income forming an integral part of the corresponding financial instrument

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

Fees and commission expense

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

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

2.4. Summary of significant accounting policies (contd.)

Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading.

Net gain or loss on financial assets and liabilities designated at FVTPL

Net gain or loss on financial instruments at FVTPL represents financial assets and financial liabilities designated as at FVTPL and also non-trading assets measured at FVTPL, as required by or elected under IFRS9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

Net gain or loss on derecognition of financial assets measured at amortised cost or FVOCI

Net gain or loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs or FVOCI calculated as the difference between the book value (including impairment) and the proceeds received.

Financial instruments – initial recognition

Date of recognition

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

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments, other than those measured at FVTPL, are initially measured at their fair value including respective transaction costs. While financial instruments at FVTPL are recognised at its fair value and any transaction costs are recognised in profit or loss. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

'Day 1' profit or loss

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

Measurement categories of financial assets and liabilities

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

- Amortised cost
- FVOCI
- FVTPL

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

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

2.4. Summary of significant accounting policies (contd.)

Financial assets and liabilities per financial statement line item (contd.)

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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

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

An analysis of fair values of financial instruments and further details as how they are measured are provided in Note 35.

Financial assets and liabilities per financial statement line

Due from banks, Loans and advances to customers, Financial investments at amortised cost

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

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

The details of these conditions are outlined below.

2.4. Summary of significant accounting policies (contd.)

Financial assets and liabilities per financial statement line item (contd.)

Due from banks, Loans and advances to customers, Financial investments at amortised cost (contd.)

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

- The risks that affect the performance of the business model and, in particular, the way those risks are managed;
- Past experience with how the cash flows from these assets were obtained;
- The metrics used to measure and report on portfolio performance and reported to the key management;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

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

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

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

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

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

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

Derivatives recorded at fair value through profit or loss

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

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

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, cross currency swaps and forward foreign exchange contracts on interest rates and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are included in other income unless hedge accounting is applied.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if they meet the definition of a derivative (as defined above), their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

2.4. Summary of significant accounting policies (contd.)

Financial assets and liabilities per financial statement line item (contd.)

Debt instruments at FVOCI

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

The expected credit loss ("ECL") calculation for debt instruments at FVOCI is explained in Note 34. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

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

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

Borrowed funds and debt securities issued

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

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

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. When establishing the accounting treatment of these non-derivative instruments the Bank first establishes whether the instrument is a compound instrument and classifies such instruments or components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to its equity and liability components, the equity component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. The value of any derivative features (such as a call options) embedded in the compound financial instrument, other than the equity component (such as an equity conversion options) is included in the liability component. Once the Bank has determined the split between equity and liability, it further evaluates if the liability component has embedded derivatives which would require separation.

Financial assets and liabilities at FVTPL

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

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

2.4. Summary of significant accounting policies (contd.)

Financial assets and liabilities per financial statement line item (contd.)

Financial guarantee, letter of credit and undrawn loan commitments

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

Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance as set out in Note 33.

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

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL are disclosed in Note 33.

Due to customers

This includes current, savings, time deposits and bank guarantee fund from customers. After initial measurement, due to customers are subsequently measured at amortised cost using the EIR.

Due to banks

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

Reclassification of financial assets

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

Modification of financial assets and liabilities

Modification of financial assets

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

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

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- Whether 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.

2.4. Summary of significant accounting policies (contd.)

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

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

Derecognition other than for substantial modification

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

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

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

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

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if either:

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

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

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

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

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

2.4. Summary of significant accounting policies (contd.)

Forborne 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 Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

If modifications are substantial, the loan is derecognised, as explained above. Once the terms have been renegotiated without this resulting in the derecognition of the loan, 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 since initial recognition and thus classifies the loan as Stage 2. Once an asset has been classified as forborne, it reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contracts that are more than 30 days past due

Details of forborne assets are disclosed in Note 34.

Impairment of financial assets

Overview of the ECL principles

The Bank records an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or "LTECL"), unless there has been no significant increase in credit risk ("SICR") since origination, in which case, the allowance is based on the 12 months expected credit loss ("12mECL"). The Bank's policies for determining if there has been a SICR are set out in Note 34.

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

Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

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

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

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

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

POCI: POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

2.4. Summary of significant accounting policies (contd.)

Impairment of financial assets (contd.)

Calculation of ECL

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

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

PD: The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD: The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD: The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

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

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in the earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

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

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

2.4. Summary of significant accounting policies (contd.)

Impairment of financial assets (contd.)

Stage 3:	For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
POCI	POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.
Loan commitments and letters of credit	When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within 'other liabilities'.
Financial guarantee contracts	The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in profit or loss, and the ECL provision. For this purpose, the Bank estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECL related to financial guarantee contracts are recognised within 'other liabilities'.

Debt instruments measured at FVOCI

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

Credit cards and other revolving facilities

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

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

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

Forward looking information

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

- Inflation Rate
- Gross Domestic Product ("GDP") growth
- MNT/USD Exchange rate ("FX rate")
- Policy rate
- Credit Growth (YoY)
- Money M2 Growth (YoY)
- Unemployment rate
- Credit outstanding of commercial banks

The inputs and models used for calculating ECL 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.

2.4. Summary of significant accounting policies (contd.)

Credit enhancements: Collateral valuation and financial guarantees

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

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

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

Guarantees held are included in the measurement of loan ECL when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended.

Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL as an off-balance sheet item.

Foreclosed properties

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

Precious metals

Precious metals represents gold and silver which are carried at the fair value.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Investment in associate

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

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

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

2.4. Summary of significant accounting policies (contd.)

Investment in associate (contd.)

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

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

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

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

Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents comprises cash on hand, non-restricted current accounts with banks and amounts due from banks or with an original maturity of three months or less.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

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

Leases

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

Bank as a lessee

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

Right-of-use assets

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

2.4. Summary of significant accounting policies (contd.)

Leases (contd.)

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

Short-term leases

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

Determining the lease term of contracts with renewal options

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

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

Property and equipment

Property and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property and equipment when the costs are incurred if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

Buildings and land are measured at fair value. Valuations are undertaken on a three to five year cycle. Between valuation dates, buildings are depreciated to the extent that reflect erosion of value. Any revaluation reserve is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case, the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing reserve on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

2.4. Summary of significant accounting policies (contd.)

Property and equipment (contd.)

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

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

Items of property and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of profit or loss when the asset is derecognised.

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

Intangible assets

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

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

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

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

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful live of three to ten years.

Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Bank considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

2.4. Summary of significant accounting policies (contd.)

Non-current assets held for sale

The Bank classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Impairment of non–financial assets

The Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's ("CGU") fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Employee benefits

Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank.

Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

Defined contribution plans

As required by law, companies in Mongolia make contributions to the government pension scheme, social and health fund. Such contributions are recognised as an expense in profit or loss as incurred.

Provisions

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

Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. All operating segments' operating results are regularly reviewed by the Bank's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

2.4. Summary of significant accounting policies (contd.)

Taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except for:

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

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium

The amount of contribution in excess of par value is accounted for as “Share premium”. Share premium also arises from additional capital contribution from the stockholders.

Retained earnings

Retained earnings represent accumulated profits or losses, reduced by dividend declarations. These may also include prior period adjustments and effects of changes in accounting policies.

Asset revaluation reserve

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

Regulatory reserve

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.

2.4. Summary of significant accounting policies (contd.)

Equity (contd.)

Fair value reserves

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

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 for the year 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 weighted average number of 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 person or a close member of that person's family is related to a Bank if that person:
- has control or joint control of the Bank;
- has significant influence over the Bank; or
- is a member of the key management personnel of the Bank or of a parent of the Bank.

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

All material transactions and balances with the related parties are disclosed in the relevant notes to financial statements and the detail is presented in Note 36.

2.5 First-time adoption of IFRS

These financial statements, for the year ended 31 December 2021, are the first the Bank has prepared in accordance with IFRSs. For the year ended 31 December 2020, the Bank prepared its financial statements in accordance with the Bank's accounting policies, which were formulated in accordance with IFRSs, as issued by IASB, except for the adoption of IFRS 9 *Financial Instruments*, of which the Bank applied the modifications of the BoM provisioning and classification guidelines for the impairment and classification of financial assets.

Accordingly, the Bank has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* and prepared financial statements that comply with IFRSs applicable as at 31 December 2021, together with the comparative period data for the year ended 31 December 2020, as described in the summary of significant accounting policies. In preparing the financial statements, the Bank's opening statement of financial position was prepared as at 1 January 2020, the Bank's date of transition to IFRSs. This note explains the principal adjustments made by the Bank in restating its prior year financial statements previously prepared based on the accounting policies then applied, including the statement of financial position as at 1 January 2020 and the financial statements as of, and for the year ended 31 December 2020.

2.5 First-time adoption of IFRS

Reconciliation of statement of financial position as at 1 January 2020 (date of transition to IFRS)

	Notes	Under IFRS as modified by BoM guidelines MNT'000	Reclassification MNT'000	Remeasurement MNT'000	Under IFRS MNT'000
ASSETS					
Cash and balances with Bank of Mongolia	**(a)**	1,096,100,972		(287,248)	1,095,813,724
Due from banks and financial institutions	**(b)**	301,381,272		(447,563)	300,933,709
Financial investments – available-for-sale		782,475,730	(782,475,730)	–	–
To: Financial assets at FVTPL	**(c)**		(97,023,096)		
To: Debt instruments at FVOCI	**(d)**		(628,163,257)		
To: Equity instruments at FVOCI	**(e)**		(26,254,377)		
To: Equity instruments at FVTPL	**(f)**		(31,035,000)		
Financial investments - held to maturity		1,050,141,040	(1,050,141,040)	–	–
To: Debt instruments at amortised cost	**(g)**		(1,050,141,040)		
Financial assets at FVTPL		–	97,023,096	–	97,023,096
From: Financial investments – available-for-sale	**(c)**		97,023,096		
Debt instruments at FVOCI		–	628,163,257	–	628,163,257
From: Financial investments – available-for-sale	**(d)**		628,163,257		
Equity instruments at FVOCI		–	26,254,377	–	26,254,377
From: Financial investments – available-for-sale	**(e)**		26,254,377		
Equity instruments at FVTPL		–	31,035,000	–	31,035,000
From: Financial investments – available-for-sale	**(f)**		31,035,000		
Debt instruments at amortised cost		–	1,050,141,040	(1,152,420)	1,048,988,620
From: Financial investments - held to maturity	**(g)**		1,050,141,040	(1,152,420)	
Derivative financial instruments		494,861,756			494,861,756
Loans and advances to customers	**(h)**	3,503,151,646		(34,541,745)	3,468,609,901
Other assets	**(i)**	103,788,084		27,404,986	131,193,070
Investment property		80,897,528			80,897,528
Property and equipment		392,311,221			392,311,221
Right-of-use assets		12,717,699			12,717,699
Intangible assets		5,870,617			5,870,617
TOTAL ASSETS		**7,823,697,565**	**–**	**(9,023,990)**	**7,814,673,575**
LIABILITIES					
Due to banks and other financial institutions		189,383,778			189,383,778
Repurchase agreement		65,013,356			65,013,356
Due to customers		3,821,434,134			3,821,434,134
Derivative financial instruments		76,226,529			76,226,529
Borrowed funds		759,290,707			759,290,707
Sub-ordinated debt		150,046,057			150,046,057
Debt securities issued		1,536,488,710			1,536,488,710
Other liabilities		508,520,501		3,791,297	512,311,798
Lease liability		13,591,398			13,591,398
TOTAL LIABILITIES		**7,119,995,170**	**–**	**3,791,297**	**7,123,786,467**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK					
Share capital		50,000,707			50,000,707
Share premium		19,298,006			19,298,006
Other reserves	**(j)**	151,476,785		27,083,011	178,559,796
Retained earnings	**(j)**	482,926,897		(39,898,298)	443,028,599
TOTAL EQUITY		**703,702,395**	**–**	**(12,815,287)**	**690,887,108**
TOTAL LIABILITIES AND EQUITY		**7,823,697,565**	**–**	**(9,023,990)**	**7,814,673,575**

2.5 First-time adoption of IFRS

Reconciliation of statement of financial position as at 31 December 2020

	Notes	Under IFRS as modified by BoM guidelines MNT'000	Reclassification MNT'000	Remeasurement MNT'000	Under IFRS MNT'000
FINANCIAL ASSETS					
Cash and balances with Bank of Mongolia	**(a)**	856,968,353		(170,578)	856,797,775
Due from banks and financial institutions	**(b)**	570,008,607		(6,953)	570,001,654
Financial investments – available-for-sale		876,122,705	(876,122,705)		–
To: Financial assets at FVTPL	**(c)**		(127,666,125)		
To: Debt instruments at FVOCI	**(d)**		(714,034,384)		
To: Equity instruments at FVOCI	**(e)**		(34,422,196)		
Financial investments - held to maturity		835,875,836	(835,875,836)	–	–
To: Debt instruments at amortised cost	**(g)**		(835,875,836)		
Financial assets at FVTPL		–	127,666,125	–	127,666,125
From: Financial investments – available-for-sale	**(c)**		127,666,125		
Debt instruments at FVOCI		–	714,034,384		714,034,384
From: Financial investments – available-for-sale	**(d)**		714,034,384		
Equity instruments at FVOCI		–	34,422,196	–	34,422,196
From: Financial investments – available-for-sale	**(e)**		34,422,196		
Debt instruments at amortised cost		–	835,875,836	(842,806)	835,033,030
From: Financial investments - held to maturity	**(g)**		835,875,836	(842,806)	
Investment in associate		40,813,475			40,813,475
Derivative financial instruments		89,371,192			89,371,192
Loans and advances to customers	**(h)**	4,108,718,370		(83,591,122)	4,025,127,248
Other assets	**(i)**	112,659,306		13,315,490	125,974,796
Investment property		148,990,218			148,990,218
Assets held for sale		4,138,693			4,138,693
Property and equipment		458,644,011			458,644,011
Right-of-use assets		10,132,850			10,132,850
Intangible assets		4,374,414			4,374,414
TOTAL ASSETS		**8,116,818,030**	**–**	**(71,295,969)**	**8,045,522,061**
LIABILITIES					
Due to banks and other financial institutions		102,946,144			102,946,144
Repurchase agreement		224,287,616			224,287,616
Due to customers		5,311,418,183			5,311,418,183
Derivative financial instruments		99,723,102			99,723,102
Borrowed funds		558,736,354			558,736,354
Debt securities issued		160,140,274			160,140,274
Other liabilities		628,403,246		15,861,460	644,264,706
Lease liability		11,384,522			11,384,522
Income tax liabilities		111,957			111,957
Deferred tax liabilities		2,155,509			2,155,509
TOTAL LIABILITIES		**7,099,306,907**	**–**	**15,861,460**	**7,115,168,367**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK					
Share capital		72,723,171			72,723,171
Share premium		251,086,754			251,086,754
Other reserves	**(j)**	193,056,881		27,324,754	220,381,635
Retained earnings	**(j)**	500,644,317		(114,482,183)	386,162,134
TOTAL EQUITY		**1,017,511,123**	**–**	**(87,157,429)**	**930,353,694**
TOTAL LIABILITIES AND EQUITY		**8,116,818,030**	**–**	**(71,295,969)**	**8,045,522,061**

2.5 First-time adoption of IFRS

Reconciliation of Statement of profit or loss and other comprehensive income for the year ended 31 December 2020

	Notes	Under IFRS as modified by BoM guidelines MNT'000	Reclassification MNT'000	Remeasurement MNT'000	Under IFRS MNT'000
Interest income	(j)	707,870,414		4,709,031	712,579,445
Interest and similar expenses		(506,145,302)			(506,145,302)
Net interest income		**201,725,112**	**–**	**4,709,031**	**206,434,143**
Fee and commission income		54,072,967			54,072,967
Fee and commission expenses		(14,708,811)			(14,708,811)
Net fee and commission income		**39,364,156**	**–**	**–**	**39,364,156**
Net trading income		–			–
Other operating (expense)/income	(f)	(5,672,447)		(15,403,295)	(21,075,742)
Total operating income		**235,416,821**	**–**	**(10,694,264)**	**224,722,557**
Credit loss expense	(j)	(64,675,317)		(71,439,966)	(136,115,283)
Net operating income		**170,741,504**	**–**	**(82,134,230)**	**88,607,274**
Operating expenses		(131,602,195)			(131,602,195)
Share of loss of an associate		(14,501,873)			(14,501,873)
Profit before tax		**24,637,436**	**–**	**(82,134,230)**	**(57,496,794)**
Income tax expense	(f)	(3,660,409)		364,144	(3,296,265)
Profit for the year		**20,977,027**	**–**	**(81,770,086)**	**(60,793,059)**
Other comprehensive income (net of tax):					
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):					
Net change in fair value of available-for-sale financial investments		(1,424,125)	1,424,125	–	–
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):					
Net change in fair value of debt instruments at fair value through other comprehensive income	(j)		295,801	(36,016)	259,785
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):					
Revaluation (loss)/gain on equity instruments at fair value through other comprehensive income	(j)		(1,719,926)	3,794,546	2,074,620
Other comprehensive income		**(1,424,125)**	**–**	**3,758,530**	**2,334,405**
Total comprehensive income for the year, net of tax		**19,552,902**	**–**	**(78,011,556)**	**(58,458,654)**

2.5 First-time adoption of IFRS

Notes to the reconciliation of Statement of financial position as at 1 January 2020 and 31 December 2020 and Statement of profit or loss and other comprehensive income for the year ended 31 December 2020:

(a) Cash and balances with BoM include current account with BoM that are maintained in accordance with the BoM regulations. The average account balance is determined by BoM and is not available for use in the Bank's day to day operations. ECL allowance on these reserves was calculated on the account balance as at the reporting date.
(b) Due from banks represent local and foreign currency current accounts maintained with foreign and local financial institutions. ECL allowance on these reserves was calculated on the account balance as at the reporting date.
(c) The Bank has classified Junior RMBS as financial assets measured at FVTPL as the payments did not meet the SPPI criterion. The Bank has also classified Senior RMBSs as financial asset measured at FVTPL based on their business model.
(d) Debt instruments measured at fair value through OCI under IFRS 9 include unquoted BoM treasury bills, quoted government bonds and quoted MIK bonds, previously classified as available-for-sale. Based on the assessment made as of 1 January 2020, the Bank concluded that these instruments are managed within a business model of both collecting contractual cash flows and selling the financial assets, therefore classified as debt instruments measured at fair value through OCI under IFRS 9.
(e) The Bank has elected the option to irrecoverably designate its previously available-for-sale unquoted and quoted equity instruments as Equity instruments at FVOCI.
(f) The Bank has previously classified equity investment in MIK Holding JSC ("MIK") as available-for-sale. As of 1 January 2020, the investment was reclassified as equity instrument at fair value through profit or loss under IFRS 9. The investment was then accounted for as an associate after the Merger, and thus respective accumulated fair value changes were reclassified into profit or loss upon Bank gaining significant influence over MIK.
(g) Included in debt instruments at amortised cost are unquoted bonds issued by Development Bank of Mongolia and unquoted government bonds, previously classified as held-to-maturity investment. These bonds are held by the Bank to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
(h) Included in loans and advances to customers are project mortgage loan portfolio, that are held to be sold to MIK with non-recourse option. The objective of the Bank and observable activities under this specific scheme is to transfer this portfolio to MIK in exchange for residential backed mortgage bonds. As a result, those loans and advances for were classified as FVTPL from the date of initial application of IFRS 9.
(i) Included in the other assets is foreclosed properties for which the Bank had set up a provision under its previous accounting policy. The provision was reassessed and reversed under IFRS 9. Furthermore, the other assets include other receivables due from third parties, which were assessed and adjusted for expected credit losses under IFRS 9.
(j) Following table details the impact of transition to IFRS on reserves and retained earnings:

At 1 January 2020	Balance MNT'000
Other reserves	
Under IFRS as modified by BoM guidelines	151,476,785
Reclassification of equity investment securities from available-for-sale to FVTPL	(517,250)
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	195,276
Recognition of regulatory reserves	27,404,985
Net effect on other value reserves	27,083,011
Under IFRS	**178,559,796**
Retained earnings	
Under IFRS as modified by BoM guidelines	482,926,897
Recognition of expected credit losses under IFRS 9 for financial instruments other than debt instruments at FVOCI	(1,887,231)
Recognition of off-balance sheet interest income	4,001,766
Recognition of expected credit losses under IFRS 9 for debt instruments at FVOCI	(195,276)
Recognition of credit losses under IFRS 9 for loans and advances	(38,543,510)
Recognition of expected credit losses under IFRS 9 for credit commitments	(3,791,297)
Reversal of foreclosed property provision under IFRS 9	27,404,985
Recognition of regulatory reserves	(27,404,985)
Reclassification of equity investment securities from available-for-sale to FVTPL	517,250
Net effect on retained earnings	(39,898,298)
Under IFRS	**443,028,599**

2.5 First-time adoption of IFRS (cont`d)

Notes to the reconciliation of Statement of financial position as at 1 January 2020 and 31 December 2020 and Statement of profit or loss and other comprehensive income for the year ended 31 December 2020 (cont'd.)

(j) Following table details the impact of transition to IFRS on reserves and retained earnings (contd.):

At 31 December 2020	Balance MNT'000
Other reserves	
Under IFRS as modified by BoM guidelines	193,056,881
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	159,260
Recognition of regulatory reserves	27,165,494
Net effect on other value reserves	27,324,754
Under IFRS	**220,381,635**
Retained earnings	
Under IFRS as modified by BoM guidelines	500,644,317
Recognition of expected credit losses under IFRS 9 for financial instruments other than debt instruments at FVOCI	(1,020,337)
Recognition of off-balance sheet interest income	8,710,797
Recognition of expected credit losses under IFRS 9 for debt instruments at FVOCI	(159,260)
Recognition of expected credit losses under IFRS 9 for other assets	(13,850,005)
Recognition of credit losses under IFRS 9 for loans and advances	(92,301,918)
Recognition of expected credit losses under IFRS 9 for credit commitments	(15,861,460)
Reversal of foreclosed property provision under IFRS 9	7,337,693
Recognition of regulatory reserves	(7,337,693)
Net effect on retained earnings	(114,482,183)
Under IFRS	**386,162,134**

3. Merger with Ulaanbaatar City Bank LLC

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

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

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

	26 June 2020 MNT'000
ASSETS	
Cash and balances with BoM*	7,705,567
Due from other banks and financial institutions	106,323,028
Financial investments	30,443,201
Investment in an associate	27,670,448
Loans and advances to customers	862,934,618
Other assets	52,438,318
Investment properties	5,631,893
Property and equipment	78,026,336
Right-of-use assets	1,085,892
Intangible assets	889,144
TOTAL ASSETS	**1,173,148,445**
LIABILITIES	
Due to customers	808,568,971
Repurchase agreements	8,426,638
Due to banks and other financial institutions	17,897,612
Borrowed funds	37,733,505
Other liabilities	149,862,479
Lease liabilities	970,544
Deferred tax liabilities	1,763,700
TOTAL LIABILITIES	**1,025,223,449**
NET ASSET	**147,924,996**

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

All assets, liabilities, reserves and branches of UBCB were merged into the Bank, with effect from 26 June 2020, by issuing 659,282 new shares, with a par value of MNT 15,128 each. Revaluation reserve relating to the revaluation of buildings and land amounting to MNT 39,744,614 thousand and Regulatory reserve amounting to MNT 3,669,414 thousand were transferred to Asset revaluation reserve and Regulatory reserve and the remaining balance of the net assets of UBCB of MNT 94,537,126 thousand were recognised as share premium (See Note 31).

If the Merger had taken place at the beginning of 2020, the Bank's interest and similar income would have been MNT 773,490,083 thousand and Loss before tax would have been MNT 63,883,801 thousand.

4. Significant accounting judgments, estimates and assumptions

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

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

Impairment losses on financial assets

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

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

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

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

Impact of Covid-19 on the provision for impairment. In response to Covid 19 and the Bank's expectations of economic impacts, the key conditions and assumptions utilised in the Bank's calculation of ECL have been revised. The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are assessed. Notwithstanding that credit model inputs and assumptions, including forward looking macroeconomic assumptions, were revised in response to the Covid-19 pandemic, the fundamental credit model and methodology underpinning the Bank's calculation of ECL have remained consistent with prior year.

Fair value of derivative financial instruments

When the fair value of derivative financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions could affect the reported fair value of derivative financial instruments. See Note 35 for further disclosures.

Revaluation of properties

The Bank carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. In addition, the Bank measures its land and buildings at revalued amounts, with changes in fair value being recognised in OCI. The Bank engages an independent valuation specialist to assess fair value of both investment properties and the land and buildings. Properties were valued principally by reference to market-based evidence, using comparable prices and income approaches adjusted for specific market factors such as nature, location and condition of the buildings. The Bank engaged an independent valuation specialist to assess fair values as at 31 December 2021 for both the investment properties and land and buildings.

This valuation assessment requires exercise of judgment from management and independent valuer based on their experience of those properties as well as other assumptions described in Note 35.

4. Significant accounting judgments, estimates and assumptions (contd.)

Determination of significant influence over an entity in which Bank holds less than 20% voting right

The Bank considers that it has significant influence over MIK even though it owns less than 20% of the voting rights. This is because the Bank is one of the largest shareholders of MIK with a 10% equity interest (effective interest of 13.58%) while majority of the other shareholders hold less than 10% equity interest. Additionally, certain related parties of the Bank hold around 21.82% (effective interest of 29.63%) equity interest in MIK, and out of five Board members appointed from the shareholders, two members represent the Bank and its related party, thus the voting power of the Bank together with its related parties are larger than that of any other shareholder of MIK. Furthermore, the Bank enters into material transactions with MIK throughout the year on regular basis. Although these transactions are entered into during ordinary course of business, the volume and amount are considered material.

5. Interest and similar income

	2021 MNT'000	2020 MNT'000
Interest income calculated using the effective interest method		
Loans and advances to customers	379,891,417	503,112,704
Debt instrument at amortised cost	105,874,414	138,280,327
Debt instrument at FVOCI	76,877,070	34,872,783
Cash and balances with BoM	5,018,183	10,054,972
Due from banks and financial institutions	2,346,939	7,366,110
Reverse repurchase agreements	778,428	244,414
	570,786,451	**693,931,310**
Other interest and similar income		
Financial assets at FVTPL	14,754,616	12,171,094
Loans and advances to customers measured at FVTPL	11,566,398	6,477,041
	26,321,014	**18,648,135**

In 2021, interest income from debt instruments at FVOCI and amortised cost includes interest income from government bonds amounting to MNT 105,874,414 thousand and MNT 1,097,905 thousand, respectively (2020: MNT 138,280,327 thousand and MNT 391,969 thousand respectively) which are tax exempt incomes.

6. Interest and similar expenses

	2021 MNT'000	2020 MNT'000
Due to customers	257,645,983	263,072,945
Borrowed funds	116,374,067	119,439,476
Repurchase agreements	15,057,398	7,010,255
Debt securities issued	12,800,000	70,089,966
Due to banks and financial institutions	2,539,483	24,044,755
Lease liability (Note 23)	1,219,631	1,821,379
Sub-ordinated debt	–	20,666,526
	405,636,562	**506,145,302**

7. Net fees and commission income

	2021 MNT'000	2020 MNT'000
Fees and commission income from providing financial services at a point in time:		
Card service	26,654,212	20,479,309
Wire transfer	13,229,064	10,248,276
Financial guarantee	9,222,144	9,257,769
Loan related service	7,455,936	6,776,996
Mobile and internet-banking service	4,596,024	3,435,793
Others	2,345,760	2,206,656
	63,503,140	**52,404,799**
Fee income earned from services that are provided over time		
Card service	1,733,855	1,668,168
	1,733,855	**1,668,168**
Fees and commission expenses		
Card service charges	16,719,066	11,667,136
Others	4,081,789	3,041,675
	20,800,855	**14,708,811**
Net fees and commission income	**44,436,140**	**39,364,156**

8. Trading and other operating (expenses)/income

	2021 MNT'000	2020 MNT'000
Foreign exchange gain/(loss), net	19,776,375	(17,510,013)
Unrealised gain/(loss) on fair valuation of derivatives	21,067,389	(6,983,603)
Gain on disposal of property and equipment, net	10,997,768	169,780
Gain on disposal of investment property	6,063,066	–
Gain on partial disposal of investment in associate, net (Note 16)	5,434,794	–
Precious metal trading gain, net	1,253,189	1,657,337
Valuation gain on investment property (Note 20)	433,617	20,122,404
Gain/(loss) on disposal of foreclosed properties, net	204,152	(365,423)
Impairment of foreclosed properties (Note 19)	(27,650,688)	–
Modification loss on other loans receivables (Note 19)	(17,805,897)	–
Net swap interest expense	(15,381,806)	(5,072,115)
Loss on initial recognition of equity investment (Note 15)	(14,508,803)	–
Net modification loss from project mortgage loans (Note 18)	(6,754,302)	(5,592,847)
Write-off of foreclosed properties	(2,123,116)	(11,246,598)
Revaluation loss on property and equipment (Note 22)	(1,745,195)	–
Gain/(loss) on disposal of asset-held-for sale, net	3,391,791	3,022,069
Gains/(losses) of fair value of financial investments at FVOCI	(509,109)	3,585,857
Deemed gain on investment in associates (Note 16)	–	768,590
Fair value change of equity instrument at FVTPL	–	(4,158,690)
Gains/(losses) of fair value of financial investments at FVTPL	–	(41,282)
Others	4,451,177	568,792
	(13,405,598)	**(21,075,742)**

9. Credit loss expense/(reversal)

	2021 MNT'000	2020 MNT'000
Loans and advances to customers (Note 18)	(65,509,851)	97,675,718
Other assets (Note 19)	17,082,876	28,362,498
Credit commitment (Note 33)	(9,248,189)	11,417,985
Debt instrument measured at amortised cost (Note 15)	(385,577)	(309,614)
Debt instrument measured at FVOCI (Note 15)	331,301	(36,016)
Due from other banks and financial institutions (Note 14)	(1,805)	(878,618)
Balances with BoM (Note 13)	25,696	(116,670)
	(57,705,549)	**136,115,283**

10. Operating expenses

	2021 MNT'000	2020 MNT'000
Personnel expense	56,426,251	53,374,168
Depreciation on property and equipment (Note 22)	13,653,950	12,977,972
Advertising and public relations	8,914,953	6,558,443
Others	9,503,140	6,018,642
Insurance	7,806,738	6,841,023
Professional services fee	5,885,907	21,910,928
IT maintenance	5,498,594	5,048,774
Depreciation of right-of-use assets (Note 23)	5,128,494	4,865,339
Technical assistance and foreign bank remittance fee	4,774,133	3,181,143
Repairs and maintenance	2,845,457	915,499
Communication	2,637,928	2,316,802
Amortisation of intangible asset (Note 24)	2,373,456	2,421,188
Stationery and supplies	2,008,763	1,533,807
Utility expenses	1,041,039	1,039,742
Transportation	568,269	356,782
Cash handling	567,943	392,553
Rental expense	347,218	408,258
Reception and entertainment	258,830	478,578
Security	236,587	145,750
Training expenses	182,003	139,846
Write-off of property and equipment (Note 22)	154,371	34,119
Business travel expenses	124,539	296,763
Write-off of intangible assets (Note 24)	–	346,076
	130,938,563	**131,602,195**

11. Income taxes

11.1 Income tax expense

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

	2021 MNT'000	2020 MNT'000
Income tax:		
Current income tax	14,601,281	1,101,888
Understatement of prior year income tax	–	4,480,130
Deferred tax:		
Relating to temporary differences (Note 11.3)	1,127,785	(2,285,753)
	15,729,066	**3,296,265**

11. Income taxes (contd.)

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 MNT'000
Profit/(loss) before income tax	120,539,499	(57,496,794)
Tax at statutory rate of 25% (2020: 25%)	30,134,875	(14,374,199)
Effect of expenses not deductible for income tax purpose	19,567,730	32,995,909
Unrecognised deferred tax asset	–	5,045,710
Special tax rate	2,166,083	1,067,568
Tax rate difference	(1,578,177)	10,351,153
Effect of non-taxable income	(7,728,804)	(1,601,932)
Effect of income exempted from taxation	(26,743,079)	(34,668,073)
Effect of tax credit	(89,562)	–
Adjustment in respect of current income tax of prior years	–	4,480,129
Tax (benefit)/expense	**15,729,066**	**3,296,265**

As at 31 December 2021, the Bank has no available tax losses of (2020: MNT 56,554,692 thousand) that are available to offset against future taxable profits for the next four financial years. The annual amount of tax loss deductible from taxable income is limited to 50% of the taxable income in a given year.

Deferred tax assets arising from tax losses are not recognised as the Bank is uncertain whether there would be sufficient taxable profit in the next four years available against which the tax losses carried forward can be utilised.

The effective income tax rate for 2021 is 13.05% (2020: nil).

11.2 Income tax liabilities

	2021 MNT'000	2020 MNT'000
Income tax liability as at 1 January	111,957	–
Income tax expense for the year	14,601,281	5,582,018
Withheld by third parties	(2,213,239)	–
Tax paid	–	(5,470,061)
Income tax liability as at 31 December	**12,499,999**	**111,957**

11.3 Deferred tax liabilities

As at 31 December 2021	**As at 1 January 2021 MNT'000**	**Recognised in other comprehensive income MNT'000**	**Recognised in profit or loss MNT'000**	**As at 31 December 2021 MNT'000**
Deferred tax (asset)/liability				
Revaluation of financial investments measured at FVOCI	2,677,562	(2,247,950)	–	429,612
Revaluation of derivative financial instruments	(548,280)	–	2,106,738	1,558,458
Share of profit of an associate	(20,645)	–	(978,953)	(999,598)
Lease liability and ROU asset	46,872	–	–	46,872
	2,155,509	**(2,247,950)**	**1,127,785**	**1,035,344**

11. Income taxes (contd.)

11.3 Deferred tax liabilities (contd.)

As at 31 December 2020	As at 1 January 2020 MNT'000	Recognised in other comprehensive income MNT'000	Recognised in profit or loss MNT'000	Transfer from UBCB MNT'000	As at 31 December 2020 MNT'000
Deferred tax (asset)/liability					
Revaluation of financial investments measured at FVOCI	–	2,677,562			2,677,562
Revaluation of derivative financial instruments	–	–	(548,280)	–	(548,280)
Share of profit of an associate	–		(1,737,473)	1,716,828	(20,645)
Lease liability and ROU asset	–	–	–	46,872	46,872
	–	**2,677,562**	**(2,285,753)**	**1,763,700**	**2,155,509**

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 MNT'000
Profit/(Loss) attributable to ordinary equity holders - basic and diluted	104,810,433	(60,793,059)
Adjusted weighted average number of ordinary shares for EPS	4,807,082	3,674,250
Earnings per share		
	MNT	**MNT**
Equity holders of the Bank for the period:		
Basic earnings/(loss) per share	21,803	(16,546)
Diluted earnings/(loss) per share	21,803	(16,546)

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year (See Note 31).

13. Cash and balances with Bank of Mongolia

	2021 MNT'000	2020 MNT'000
Cash on hand	86,908,373	67,040,947
Current accounts with BoM	889,640,138	789,927,406
Gross carrying amount	**976,548,511**	**856,968,353**
Less: Allowance for impairment losses on balances with BoM	(196,274)	(170,578)
Net cash and balances with BoM	**976,352,237**	**856,797,775**

Current accounts with BoM are maintained in accordance with BoM regulations. The balances maintained with BoM are determined at not less than 6.0% (2020: 6.0%) of customer deposits for local currency and not less than 18.0% (2020: 15.0%) of customer deposits for foreign currency based on average balance of two weeks.

As at 31 December 2021, the average reserves required by BoM for that period of two weeks were MNT 204,051,735 thousand (2020: MNT 168,376,157 thousand) for local currency and MNT 513,533,692 thousand (2020: MNT 425,158,583 thousand) for foreign currency maintained on current accounts with BoM.

Impairment allowance for cash and balances with BoM

The table below shows the credit quality and the maximum exposure excluding cash on hand to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. The balances have credit rating of B- and classified as stage 1. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 34:

	12 month PD range	Total Exposure at default Stage 1 MNT'000	ECL Stage 1 MNT'000
31 December 2021	2.409%	889,640,138	(196,274)
31 December 2020	2.358%	789,927,406	(170,578)

An analysis of changes in the ECL allowance as at 31 December 2021 and 2020 are as follows:

	2021 MNT'000	2020 MNT'000
At 1 January	170,578	287,248
Net charge/(reversal) for the year (Note 9)	25,696	(116,670)
At 31 December	**196,274**	**170,578**

Additional cashflow information

	2021 MNT'000	2020 MNT'000
Cash and balances with BoM (Note 13)	976,548,511	856,968,353
Due from banks and financial institutions (Note 14)	504,422,698	570,008,607
Unquoted BoM treasury bills - less than three months (Note 15)	1,661,230,725	688,492,320
Gross carrying cash and cash equivalents amount	**3,142,201,934**	**2,115,469,280**
Less: Minimum reserve with the BoM not available to finance the Bank's day to day operations	(717,585,428)	(593,534,740)
Less: Placement with foreign bank as cash collateral	(159,292,237)	(143,779,003)
Less: Unquoted BoM treasury bills - less than three months held as collateral	(538,216,577)	(1,782,246)
Net cash and cash equivalents	**1,727,107,692**	**1,376,373,291**

14. Due from other banks and financial institutions

	2021 MNT'000	2020 MNT'000
Current accounts with foreign banks and financial institutions	244,856,076	422,344,623
Placement with foreign bank as cash collateral	159,292,237	143,779,003
Current accounts with local banks and financial institutions	889,908	2,383,173
Placement with local banks and financial institutions	99,384,477	1,501,808
Gross carrying amount	**504,422,698**	**570,008,607**
Less: Allowance for impairment losses	(5,148)	(6,953)
Net due from banks and other financial institutions balance	**504,417,550**	**570,001,654**

Impairment allowance for due from other banks and financial institutions

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 34.

	12 month PD range	Total Exposure at default Stage 1 MNT'000	ECL Stage 1 MNT'000
At 31 December 2021			
Internal rating grade			
A- to AA+ rated	0.022% - 0.076%	447,407,252	2,440
BBB- to BBB+	0.257%	27,913,686	111
B- to BB+	0.875% - 2.974%	16,513,689	542
Not rated	10.11%	12,588,071	2,055
		504,422,698	**5,148**
At 31 December 2020			
Internal rating grade			
A- to AA+ rated	0.024% -0.081%	520,118,322	460
BBB- to BBB+	0.269%	17,974,022	74
B- to BB+	0.897% - 3.79%	8,634,376	2,662
Not rated	10.001%	23,281,887	3,757
		570,008,607	**6,953**

14. Due from other banks and financial institutions (contd.)

An analysis of changes in the ECL allowance as at 31 December 2021 and 2020 are as follows:

	2021 Stage 1 MNT'000	2020 Stage 1 MNT'000
Gross carrying amount as at 1 January	**570,008,607**	**301,381,272**
New assets originated or purchased	106,773,411	477,620,494
Repaid amounts	(174,317,103)	(210,778,477)
Foreign exchange adjustments	1,957,783	1,785,318
At 31 December	**504,422,698**	**570,008,607**
ECL allowance as at 1 January	**6,953**	**885,571**
New assets originated or purchased	2,664	610
Assets derecognised or repaid (excluding write-offs)	(4,324)	(877,235)
Changes to assumptions	(145)	(1,993)
Net charge/ (reversal) for the year (Note 8)	(1,805)	(878,618)
At 31 December	**5,148**	**6,953**

15. Financial investments

	2021 MNT'000	2020 MNT'000
Debt instruments measured at FVOCI:		
Government USD bond (a)	58,774,436	25,542,064
Bank of Mongolia bills (b)	1,661,230,725	688,492,320
MIK USD bond (c)	34,429,486	–
	1,754,434,647	**714,034,384**
Equity instruments measured at FVOCI		
Unquoted equities (d)	3,395,537	7,313,358
Quoted equities (e)	54,267,410	27,108,838
	57,662,947	**34,422,196**
Debt instruments at amortised cost		
Government bonds (f)	544,984,309	769,134,032
Development Bank of Mongolia bonds (g)	45,694,979	65,898,997
	590,679,288	**835,033,030**
Financial assets at FVTPL		
Residential Mortgage backed securities (h)	199,870,221	127,666,125
	199,870,221	**127,666,125**
	2,602,647,103	**1,711,155,735**

(a) Quoted government bonds represent investment in government bonds listed on foreign market.
(b) Unquoted BoM treasury bills are purchased either at par, premium or discount.
(c) Quoted corporate bond represent investment in MIK bond listed on foreign market.
(d) Unquoted equity securities represent investments made in unquoted private 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.
(e) Quoted equity securities represent investments made in quoted companies such as Visa Inc. and Mongolian Mining Corporation. During the year, the Bank repossessed 4.215% shares of Mongolian Mining Corporation for loan repayment and recognised day 1 loss in profit and loss upon initial recognition (see Note 8). 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 2021, the Bank received MNT 293 million of dividend from Visa Inc. which was recorded in the income statement as other operating income.
(f) Government bonds are unquoted interest-bearing bonds issued by the Government of Mongolia ("GoM").

15. Financial investments (contd.)

(g) Development Bank of Mongolia (DBM) bonds are unquoted interest-bearing long-term bonds issued by DBM under the ASEM project.
(h) Residential mortgage-backed securities (RMBSs) represent Junior and Senior tranche of an interest-bearing long-term securities issued by MIK (see Note 18).

Impairment allowance for financial investment

The table below shows the fair value of the Bank's debt instruments measured at FVOCI and measured at amortised cost by credit risk including ECL allowance, based on the Bank's internal credit rating system and year-end stage classification. Both debt instruments have credit rating of B- to B+ and classified as stage 1. Details of the Bank's internal grading system and policies on whether ECL allowances set out in Note 34.

	Debt instruments measured at FVOCI		Debt instruments measured at AC	
	Fair value MNT'000	ECL MNT'000	Gross carrying amount MNT'000	ECL MNT'000
31 December 2021				
As at 1 January 2020	714,034,384	159,260	835,875,835	842,805
New assets originated or purchased	17,439,418,686	5,543,849	–	–
Payments and assets derecognised	(16,397,237,146)	(5,212,548)	(244,739,319)	(385,577)
Changes in fair value	(1,775,408)	–	–	–
Foreign exchange adjustments	(5,869)	–	–	–
Net charge/(reversal) for the year (Note 9)	–	331,301	–	(385,577)
As at 31 December 2020	**1,754,434,647**	**490,561**	**591,136,516**	**457,228**
31 December 2020				
As at 1 January 2020	628,163,257	195,276	1,050,141,039	1,152,419
New assets originated or purchased	7,233,040,340	(3,067,950)	–	–
Payments and assets derecognised	(7,148,128,538)	3,031,934	(214,265,204)	(309,614)
Changes in fair value	251,530	–	–	–
Foreign exchange adjustments	707,795	–	–	–
Net charge/(reversal) for the year (Note 9)	–	(36,016)	–	(309,614)
As at 31 December 2020	**714,034,384**	**159,260**	**835,875,835**	**842,805**

16. Investment in associate

As of 31 December 2021, the Bank holds 10.00% (2020: 19.99%) (or effective holding around 13.58% (2020: 27.15%) taking into account of the effect of treasury shares) in MIK. The Bank started to account for the investment as an associate upon the Merger.

During 2021, in order to comply with the requirement of the Banking law, the Bank disposed part of its investment in MIK to CNB Consulting LLC, one of the related parties of the Bank, for total consideration of MNT 17,013,040 thousand. Nevertheless, the Bank continued to have significant influence over MIK, even though it owns less than 20% of the voting rights (See Note 4).

MIK's principal activities include purchasing of mortgage pools by issuing RMBS securitised by those mortgage pools in Mongolia or proceeds from its senior notes issued in the international capital market. MIK is a public entity that is listed on the Mongolian stock exchange ("MSE"). The Bank holds a total of 2,070,932 MIK shares as of 31 December 2021 (2020: 4,139,912 shares), the closing price of MIK shares at MSE at 31 December 2021 was MNT 14,990 per share (2020: MNT 14,950 per share).

As of the date of this report, MIK has not issued its audited financial statements for the year ended 31 December 2021. The Bank's interest in MIK is accounted for using the equity method based on MIK's most recent available financial information as at 31 December 2021, adjusted for any significant events as appropriate. MIK's audited financial statements may be different from the information used by the Bank and any difference will be adjusted for by the Bank in 2022.

16. Investment in associate (contd.)

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

	MNT'000
At 1 January 2020	–
Reclassification from financial investments	26,876,310
Transfer from UBCB (Note 3)	27,670,448
Deemed gain on an associate resulted by the Merger (Note 8)	768,590
Fair value of net identifiable assets of an associate as at the date of the Merger	**55,315,348**
Share of loss of an associate for the period	(14,501,873)
At 31 December 2020 and 1 January 2021	**40,813,475**
Share of loss of an associate until partial disposal	(17,646,059)
Fair value of net identifiable assets of an associate as at the date of the disposal	23,167,416
Proceeds from partial disposal of equity interest	(17,013,040)
Gain on partial disposal of equity interest (Note 8)	5,434,794
Share of loss of an associate after partial disposal	(11,082,873)
At 31 December 2021	**506,297**

	2021 MNT'000	2020 MNT'000
Investee: MIK		
Total assets	4,225,506,608	4,069,222,998
Total liabilities	(4,221,778,353)	(3,918,897,123)
Equity	3,728,255	150,325,875
Bank's share of equity 13.58% (2020: 27.15%)	**506,297**	**40,813,475**
Net interest income for the year	88,685,106	83,676,178
Total comprehensive loss for the year	(146,584,510)	(112,336,707)

17. Derivative financial instruments

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

	Notional amount MNT'000	Fair value	
		Assets MNT'000	Liability MNT'000
At 31 December 2021			
Derivatives held for trading			
Cross-currency interest rate swaps with MIK and BoM (a)	777,151,290	69,916,420	75,951,189
Cross-currency interest rate swaps with BoM (b)	422,800,045	1,969,251	2,084,772
Commodity swap (c)	14,244,000	28,522,286	–
Forwards	98,077,347	1,239,541	–
	1,312,272,682	**101,647,498**	**78,035,961**
At 31 December 2020			
Derivatives held for trading			
Cross-currency interest rate swaps with MIK and BoM (a)	777,151,290	89,371,192	93,331,037
Cross-currency interest rate swaps with BoM (b)	340,178,235	–	6,392,065
	1,117,329,525	**89,371,192**	**99,723,102**

17. Derivative financial instruments (contd.)

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

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. The Bank's risk management strategy and how it is applied to manage its risks is disclosed in Note 34. The effects of respective hedge accounting on financial position and performance disclosed in Note 10 and below.

(a) On 28 March 2019, the Bank entered into cross-currency interest rate swap agreements with MIK (derivative financial liability) and entered into respective offsetting position with BoM (derivative financial asset) on the same day, whereby the Bank has acted as an intermediary institution. At initiation, the Bank received USD funds from MIK and paid MNT funds at the spot rate, simultaneous to which the Bank has paid USD funds to BoM and received MNT funds at the spot rate. During the term of the agreement with BoM, the Bank receives interest on USD funds at LIBOR plus certain margin and pays interest on MNT funds at the central bank policy rate. Whereas during the term of the agreement with MIK, the Bank pays interest on USD funds at rate equal to the rate received from BoM and receives interest on MNT funds at central bank policy rate plus 0.1%. At the end of the term of both agreements, the Bank shall pay or receive the difference incurred by the exchange rates at the end of the term.

(b) The Bank enters into cross-currency interest rate swap agreements with BoM. At initiation, the Bank has paid USD funds to BoM and received MNT funds at the spot rate. During the term of the agreement with BoM, the Bank receives interest on USD funds at LIBOR plus certain margin and pays interest on MNT funds at the central bank policy rate. At the end of the term of agreements, the parties shall exchange the principal payments at the exchange rate of the initial transaction.

(c) On 11 November 2021, the Bank signed a gold purchase and sales financing agreement with Steppe Gold LLC. Under the agreement, the Bank made advance payment and is due to receive cash payment equivalent to pre agreed fixed ounces of gold in 2022. The contract period is 12 months from the date of advance payment and is valid until 30 November 2022.

18. Loans and advances to customers

	2021 MNT'000	2020 MNT'000
Corporate	3,672,863,022	3,531,609,201
Retail loan	548,255,161	497,361,925
Small and Medium-sized enterprise (SME)	535,436,302	410,377,769
Loans to executives, directors and staffs	23,922,698	33,543,834
Gross loans and advances to customers	**4,780,477,183**	**4,472,892,729**
Allowance for impairment losses	(530,333,951)	(595,849,223)
Net loans and advances to customers	**4,250,143,232**	**3,877,043,506**
Loans and advances to customers at FVTPL	338,322,173	148,083,742
Total loans and advances to customers	**4,588,465,405**	**4,025,127,248**

Transferred financial assets that are derecognised in their entirety

Sale of mortgage pools

During the year (on 3 February, 2 November and 27 December 2021) 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 15).

Loans and advances to customers at FVPL

The Bank holds mortgage portfolio of loans and advances to customers to be sold to MIK which amounting to MNT 338,322 million (2020: 148,084 million). These loans and advances were classified as measured at FVTPL.

18. Loans and advances to customers (contd.)

Transferred financial assets that are not derecognised in their entirety

Furthermore, the Bank participated in monetisation transactions with MIK for selling of loan pools collateralised by immovable assets with recourse. The Bank sold MNT 119,683 million (2020: MNT 50,890 million) of loans to MIK, for which the Bank received funding bearing interest rate of 13.8% (2020: 16%) p.a. The Bank retained all the risks and rewards related to the loans sold to MIK within these transactions. Therefore, the assets do not qualify for derecognition. The assets not qualified for derecognition amounted to MNT 215,070 million as at 31 December 2021 (2020: MNT 558,249 million) (Note 30).

Troubled Asset Relief Program

In June 2016, the Bank entered into an agreement with BoM under Troubled Asset Relief Program ("TARP"), under which certain specific borrowers were to be supported by the financing from BoM. In accordance with the agreement under TARP, the Bank has issued MNT 160 billion of debt securities (Note 29), which were purchased and fully paid by BoM, ultimately providing the financing for the specific borrowers.

Government implemented Covid-19 relief program

Throughout 2020 and 2021, the GoM had implemented Covid-19 relief program together with BoM, under which it was resolved to provide an interest payment holiday to project mortgage loan holders. Under the program, the mortgage loan borrowers were given interest free period of up to six to eight months, whereas the payments deferred in the period is to be paid later by extending the original maturity of the loan. The loan balance outstanding as of 31 December 2021 amounted to MNT 148 billion (2020: MNT 122.5 billion) and net modification loss from project financing of MNT 6,754 million (2020: MNT 5,593 million) (see Note 8) was recognised in relation to this amendment.

Impairment allowance for loans and advances to customers

The tables below show the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 34.

At 31 December 2021	**Corporate MNT'000**	**SME MNT'000**	**Retail MNT'000**	**Total MNT'000**
Gross carrying amount as at 1 January 2021	**3,531,609,201**	**410,377,769**	**530,905,759**	**4,472,892,729**
New assets originated or purchased	1,251,410,506	306,211,403	337,049,995	1,894,671,904
Assets derecognised or repaid	(1,074,123,381)	(168,159,872)	(304,018,829)	(1,546,302,082)
Net movement on accrued interest	(51,840,234)	4,263,263	8,940,559	(38,636,412)
Movement from segment change	17,214,861	(17,214,861)	–	–
Foreign exchange adjustments	(1,407,931)	(41,400)	(699,625)	(2,148,956)
At 31 December 2021	**3,672,863,022**	**535,436,302**	**572,177,859**	**4,780,477,183**
ECL allowance as at 1 January 2021	**488,614,295**	**64,257,285**	**42,977,643**	**595,849,223**
New assets originated or purchased	22,097,256	5,667,582	1,667,634	29,432,472
Assets derecognised or repaid	(64,771,351)	(17,607,646)	(17,254,975)	(99,633,972)
Net movement on accrued interest	(6,391,581)	(56,112)	(451,348)	(6,899,041)
Impact on ECL from stage transfers and input changes	18,153,833	2,150,058	(8,713,201)	11,590,690
Impact on ECL from segment changes	2,885,552	(2,885,552)	–	–
Net charge for the year (Note 9)	(28,026,291)	(12,731,670)	(24,751,890)	(65,509,851)
Write-offs	(5,421)	–	–	(5,421)
At 31 December 2021	**460,582,583**	**51,525,615**	**18,225,753**	**530,333,951**

18. Loans and advances to customers (contd.)

Impairment allowance for loans and advances to customers

At 31 December 2020	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2020	**2,956,913,271**	**373,460,857**	**512,139,825**	**3,842,513,953**
New assets originated or purchased	627,444,700	91,896,455	229,743,073	949,084,228
Assets derecognised or repaid	(892,993,646)	(157,040,833)	(287,083,623)	(1,337,118,102)
Net movement on accrued interest	106,298,209	5,383,828	6,143,619	117,825,656
Movement from segment change	15,351,160	(15,351,160)	–	–
Transfer from UBCB due to the Merger	681,201,800	111,949,122	69,756,079	862,907,001
Foreign exchange adjustments	37,393,707	79,500	206,786	37,679,993
At 31 December 2020	**3,531,609,201**	**410,377,769**	**530,905,759**	**4,472,892,729**
ECL allowance as at 1 January 2020	**447,756,583**	**14,274,459**	**7,716,820**	**469,747,862**
New assets originated or purchased	34,109,688	4,950,497	7,799,615	46,859,800
Assets derecognised or repaid	(48,386,128)	(4,471,920)	(2,290,054)	(55,148,102)
Net movement on accrued interest	13,255,504	991,613	1,320,935	15,568,052
Impact on ECL from stage transfers and input changes	26,841,436	37,551,766	26,002,766	90,395,968
Net charge for the year (Note 9)	25,820,500	39,021,956	32,833,262	97,675,718
Impact on ECL from segment changes	(56,874)	56,874	–	–
Transfer from UBCB due to the Merger	15,094,086	11,088,798	2,427,561	28,610,445
Write-offs	–	(184,802)	–	(184,802)
At 31 December 2020	**488,614,295**	**64,257,285**	**42,977,643**	**595,849,223**

	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
At 31 December 2021				
Performing	1,950,286,113	453,712,950	532,227,178	2,936,226,241
Special mention	914,493,950	894,910	492,238	915,881,098
Substandard	537,494,386	43,392,192	26,386,059	607,272,637
Doubtful	22,409,676	7,487,855	3,165,775	33,063,306
Loss	248,178,897	29,948,395	9,906,609	288,033,901
Total	**3,672,863,022**	**535,436,302**	**572,177,859**	**4,780,477,183**
At 31 December 2020				
Performing	1,824,078,461	301,475,714	491,104,283	2,616,658,458
Special mention	992,814,299	362,322	55,968	993,232,589
Substandard	471,367,190	74,681,169	25,405,968	571,454,327
Doubtful	42,705,615	7,004,340	5,072,647	54,782,602
Loss	200,643,636	26,854,224	9,266,893	236,764,753
Total	**3,531,609,201**	**410,377,769**	**530,905,759**	**4,472,892,729**

18. Loans and advances to customers (contd.)

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

Business loan

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2021	**1,090,151,437**	**1,726,741,323**	**714,716,441**	**3,531,609,201**
New assets originated or purchased	1,251,410,506	–	–	1,251,410,506
Assets derecognised or repaid	(468,657,181)	(376,145,101)	(229,321,099)	(1,074,123,381)
Net movement on accrued interest	(49,759,636)	(4,922,580)	2,841,982	(51,840,234)
Movement from segment change (Cor-SME)	9,183,417	–	8,031,444	17,214,861
Transfer to/(from) Stage 1	213,588,863	(129,529,654)	(84,059,209)	–
Transfer to/(from) Stage 2	(292,703,309)	311,827,127	(19,123,818)	–
Transfer to/(from) Stage 3	(177,394,697)	(237,633,326)	415,028,023	–
Foreign exchange adjustments	(1,331,497)	(45,629)	(30,805)	(1,407,931)
At 31 December 2021	**1,574,487,903**	**1,290,292,160**	**808,082,959**	**3,672,863,022**
ECL allowance as at 1 January 2021	**7,475,613**	**221,333,691**	**259,804,991**	**488,614,295**
New assets originated or purchased	22,097,256	–	–	22,097,256
Assets derecognised or repaid	(5,259,995)	(25,845,499)	(33,665,857)	(64,771,351)
Net movement on accrued interest	(438,032)	(2,498,385)	(3,455,164)	(6,391,581)
Transfer to/(from) Stage 1	6,073,399	(2,792,186)	(3,281,213)	–
Transfer to/(from) Stage 2	(389,103)	5,841,411	(5,452,308)	–
Transfer to/(from) Stage 3	(216,241)	(17,536,648)	17,752,889	–
Impact on ECL from stage transfers and input changes	1,499,586	(12,483,342)	29,137,589	18,153,833
Impact on ECL from segment changes	63,953	–	2,821,599	2,885,552
Write-off	(5,421)	–	–	(5,421)
At 31 December 2021	**30,901,015**	**166,019,042**	**263,662,526**	**460,582,583**
Gross carrying amount as at 1 January 2020	**1,287,095,514**	**1,041,509,106**	**628,308,651**	**2,956,913,271**
New assets originated or purchased	627,444,700	–	–	627,444,700
Assets derecognised or repaid	(523,457,513)	(200,562,030)	(168,974,103)	(892,993,646)
Net movement on accrued interest	33,771,476	73,695,089	(1,168,356)	106,298,209
Movement from segment change (Cor-SME)	14,987,113	(157,325)	521,372	15,351,160
Transfer to/(from) Stage 1	71,858,166	(34,840,638)	(37,017,528)	–
Transfer to/(from) Stage 2	(674,971,248)	980,831,816	(305,860,568)	–
Transfer to/(from) Stage 3	(72,388,670)	(251,572,791)	323,961,461	–
Transfer from UBCB due to the Merger	310,626,023	102,975,840	267,599,937	681,201,800
Foreign exchange adjustments	15,185,876	14,862,256	7,345,575	37,393,707
At 31 December 2020	**1,090,151,437**	**1,726,741,323**	**714,716,441**	**3,531,609,201**
ECL allowance as at 1 January 2020	**8,330,128**	**193,806,911**	**245,619,544**	**447,756,583**
New assets originated or purchased	34,109,688	–	–	34,109,688
Assets derecognised or repaid	(4,854,458)	(28,612,256)	(14,919,414)	(48,386,128)
Net movement on accrued interest	699,866	9,262,724	3,292,914	13,255,504
Transfer to/(from) Stage 1	3,130,467	(1,903,516)	(1,226,951)	–
Transfer to/(from) Stage 2	(27,670,583)	101,291,773	(73,621,190)	–
Transfer to/(from) Stage 3	(10,229,977)	(29,987,407)	40,217,384	–
Impact on ECL from stage transfers and input changes	1,367,844	(23,493,603)	48,967,195	26,841,436
Impact on ECL from segment changes	70,218	(9,100)	(117,992)	(56,874)
Transfer from UBCB due to the Merger	2,522,420	978,165	11,593,501	15,094,086
Foreign exchange adjustments	–	–	–	–
At 31 December 2020	**7,475,613**	**221,333,691**	**259,804,991**	**488,614,295**

18. Loans and advances to customers (contd.)

Business loan (contd.)

Credit quality of gross carrying amounts as at 31 December 2021 and 2020:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2021				
Performing	1,574,487,903	375,798,210	–	1,950,286,113
Special mention	–	914,493,950	–	914,493,950
Substandard	–	–	537,494,386	537,494,386
Doubtful	–	–	22,409,676	22,409,676
Loss	–	–	248,178,897	248,178,897
Total	**1,574,487,903**	**1,290,292,160**	**808,082,959**	**3,672,863,022**
At 31 December 2020				
Performing	1,090,151,437	733,927,024	–	1,824,078,461
Special mention	–	992,814,299	–	992,814,299
Substandard	–	–	471,367,190	471,367,190
Doubtful	–	–	42,705,615	42,705,615
Loss	–	–	200,643,636	200,643,636
Total	**1,090,151,437**	**1,726,741,323**	**714,716,441**	**3,531,609,201**

SME loans

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2021	**205,574,549**	**96,263,487**	**108,539,733**	**410,377,769**
New assets originated or purchased	306,211,403	–	–	306,211,403
Assets derecognised or repaid	(99,641,475)	(37,887,057)	(30,631,340)	(168,159,872)
Net movement on accrued interest	1,171,302	1,537,982	1,553,979	4,263,263
Movement from segment change (Cor-SME)	(9,183,417)	–	(8,031,444)	(17,214,861)
Transfer to/(from) Stage 1	41,402,935	(33,456,070)	(7,946,865)	–
Transfer to/(from) Stage 2	(11,678,388)	16,830,986	(5,152,598)	–
Transfer to/(from) Stage 3	(6,198,807)	(16,298,454)	22,497,261	–
Foreign exchange adjustments	(40,721)	(395)	(284)	(41,400)
At 31 December 2021	**427,617,381**	**26,990,479**	**80,828,442**	**535,436,302**
ECL allowance as at 1 January 2021	**3,627,090**	**14,686,840**	**45,943,355**	**64,257,285**
New assets originated or purchased	5,667,582	–	–	5,667,582
Assets derecognised or repaid	(3,074,753)	(3,563,188)	(10,969,705)	(17,607,646)
Net movement on accrued interest	(289,866)	33,194	200,560	(56,112)
Transfer to/(from) Stage 1	9,914,310	(6,544,743)	(3,369,567)	–
Transfer to/(from) Stage 2	(302,911)	2,044,203	(1,741,292)	–
Transfer to/(from) Stage 3	(117,146)	(2,909,786)	3,026,932	–
Impact on ECL from stage transfers and input changes	(6,965,147)	(1,041,410)	10,156,615	2,150,058
Impact on ECL from segment changes	(63,953)	–	(2,821,599)	(2,885,552)
At 31 December 2021	**8,395,206**	**2,705,110**	**40,425,299**	**51,525,615**

18. Loans and advances to customers (contd.)

SME loan (contd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2020	**323,862,790**	**24,620,724**	**24,977,343**	**373,460,857**
New assets originated or purchased	91,896,455	–	–	91,896,455
Assets derecognised or repaid	(141,859,849)	(8,598,588)	(6,582,396)	(157,040,833)
Net movement on accrued interest	5,597,016	706,775	(919,963)	5,383,828
Movement from segment change (Cor-SME)	(14,987,113)	157,325	(521,372)	(15,351,160)
Transfer to/(from) Stage 1	3,414,410	(3,038,297)	(376,113)	–
Transfer to/(from) Stage 2	(87,804,743)	89,191,825	(1,387,082)	–
Transfer to/(from) Stage 3	(37,387,204)	(29,923,422)	67,310,626	–
Transfer from UBCB due to the Merger	62,774,988	23,147,145	26,026,989	111,949,122
Foreign exchange adjustments	67,799	–	11,701	79,500
At 31 December 2020	**205,574,549**	**96,263,487**	**108,539,733**	**410,377,769**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
ECL allowance as at 1 January 2020	**1,429,593**	**1,367,433**	**11,477,433**	**14,274,459**
New assets originated or purchased	4,950,497	–	–	4,950,497
Assets derecognised or repaid	(1,048,280)	(478,586)	(2,945,054)	(4,471,920)
Net movement on accrued interest	738,671	273,634	(20,692)	991,613
Transfer to/(from) Stage 1	220,777	(101,310)	(119,467)	–
Transfer to/(from) Stage 2	(3,081,490)	3,552,272	(470,782)	–
Transfer to/(from) Stage 3	(1,998,134)	(1,130,099)	3,128,233	–
Impact on ECL from stage transfers and input changes	2,097,927	10,626,423	24,827,416	37,551,766
Impact on ECL from segment changes	(70,218)	9,100	117,992	56,874
Transfer from UBCB due to the Merger	387,747	567,973	10,133,078	11,088,798
Foreign exchange adjustments	–	–	(184,802)	(184,802)
At 31 December 2020	**3,627,090**	**14,686,840**	**45,943,355**	**64,257,285**

Credit quality of gross carrying amounts as at 31 December 2021 and 2020:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2021				
Performing	427,617,381	26,095,569	–	453,712,950
Special mention	–	894,910	–	894,910
Substandard	–	–	43,392,192	43,392,192
Doubtful	–	–	7,487,855	7,487,855
Loss	–	–	29,948,395	29,948,395
Total	**427,617,381**	**26,990,479**	**80,828,442**	**535,436,302**
At 31 December 2020				
Performing	205,574,549	95,901,165	–	301,475,714
Special mention	–	362,322	–	362,322
Substandard	–	–	74,681,169	74,681,169
Doubtful	–	–	7,004,340	7,004,340
Loss	–	–	26,854,224	26,854,224
Total	**205,574,549**	**96,263,487**	**108,539,733**	**410,377,769**

18. Loans and advances to customers (contd.)

Retail loan

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2021	**374,377,456**	**116,782,795**	**39,745,508**	**530,905,759**
New assets originated or purchased	337,049,995	–	–	337,049,995
Assets derecognised or repaid	(244,142,434)	(48,310,008)	(11,566,387)	(304,018,829)
Net movement on accrued interest	2,886,495	5,282,663	771,401	8,940,559
Transfer to/(from) Stage 1	55,638,674	(50,741,061)	(4,897,613)	–
Transfer to/(from) Stage 2	(10,459,698)	15,691,000	(5,231,302)	–
Transfer to/(from) Stage 3	(8,813,463)	(11,823,665)	20,637,128	–
Foreign exchange adjustments	(699,207)	(126)	(292)	(699,625)
At 31 December 2021	**505,837,818**	**26,881,598**	**39,458,443**	**572,177,859**
ECL allowance as at 1 January 2021	**3,265,442**	**21,513,367**	**18,198,834**	**42,977,643**
New assets originated or purchased	1,667,634	–	–	1,667,634
Assets derecognised or repaid	(5,958,781)	(6,657,591)	(4,638,603)	(17,254,975)
Net movement on accrued interest	(480,122)	(30,521)	59,295	(451,348)
Transfer to/(from) Stage 1	12,721,291	(10,561,297)	(2,159,994)	–
Transfer to/(from) Stage 2	(315,271)	2,099,155	(1,783,884)	–
Transfer to/(from) Stage 3	(319,083)	(2,178,112)	2,497,195	–
Impact on ECL from stage transfers and input changes	(8,263,698)	(2,657,330)	2,207,827	(8,713,201)
Impact on ECL from segment changes	–	–	–	–
At 31 December 2021	**2,317,412**	**1,527,671**	**14,380,670**	**18,225,753**
Gross carrying amount as at 1 January 2020	**485,375,208**	**14,409,044**	**12,355,573**	**512,139,825**
New assets originated or purchased	229,743,073	–	–	229,743,073
Assets derecognised or repaid	(278,730,095)	(5,205,851)	(3,147,677)	(287,083,623)
Net movement on accrued interest	5,061,295	703,985	378,339	6,143,619
Transfer to/(from) Stage 1	1,965,050	(1,814,562)	(150,488)	–
Transfer to/(from) Stage 2	(111,105,381)	111,979,243	(873,862)	–
Transfer to/(from) Stage 3	(19,963,240)	(7,055,533)	27,018,773	–
Transfer from UBCB due to the Merger	61,860,744	3,750,955	4,144,380	69,756,079
Foreign exchange adjustments	170,802	15,514	20,470	206,786
At 31 December 2020	**374,377,456**	**116,782,795**	**39,745,508**	**530,905,759**
ECL allowance as at 1 January 2020	**1,165,465**	**843,470**	**5,707,885**	**7,716,820**
New assets originated or purchased	7,799,615	–	–	7,799,615
Assets derecognised or repaid	(1,017,822)	(354,907)	(917,325)	(2,290,054)
Net movement on accrued interest	922,315	107,337	291,283	1,320,935
Transfer to/(from) Stage 1	170,714	(96,156)	(74,558)	–
Transfer to/(from) Stage 2	(7,247,048)	7,551,243	(304,195)	–
Transfer to/(from) Stage 3	(513,073)	(535,024)	1,048,097	–
Impact on ECL from stage transfers and input changes	1,746,596	13,844,950	10,411,220	26,002,766
Transfer from UBCB due to the Merger	238,680	152,454	2,036,427	2,427,561
Foreign exchange adjustments	–	–	–	–
At 31 December 2020	**3,265,442**	**21,513,367**	**18,198,834**	**42,977,643**

18. Loans and advances to customers (contd.)

Retail loan (contd.)

Credit quality of gross carrying amounts as at 31 December 2021 and 2020:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2021				
Performing	505,837,818	26,389,360	–	532,227,178
Special mention	–	492,238	–	492,238
Substandard	–	–	26,386,059	26,386,059
Doubtful	–	–	3,165,775	3,165,775
Loss	–	–	9,906,609	9,906,609
Total	**505,837,818**	**26,881,598**	**39,458,443**	**572,177,859**
At 31 December 2020				
Performing	374,377,456	116,726,827	–	491,104,283
Special mention	–	55,968	–	55,968
Substandard	–	–	25,405,968	25,405,968
Doubtful	–	–	5,072,647	5,072,647
Loss	–	–	9,266,893	9,266,893
Total	**374,377,456**	**116,782,795**	**39,745,508**	**530,905,759**

Impairment of loans receivables from Mongolian Copper Corporation LLC and Kanetic Pte Ltd

As at the reporting date, the Bank has total outstanding loan receivables from Mongolian Copper Corporation LLC ("MCC") of MNT 205.5 billion (2020: MNT 191.9 billion) and Kanetic Pte Ltd ("Kanetic") amounting to MNT 228.1 billion (2020: MNT 206.9 billion). The recoverability of these loans are highly dependent on the favourable outcome of the ongoing discussions between MCC and the GoM regarding the takeover of the 49% equity interest in Erdenet Mining Corporation LLC. As of 31 December 2021, the Bank has provided an allowance for expected credit losses for these loans of MNT 40.5 billion and MNT 44.9 billion (2020: MNT 47.3billion and MNT 51.0 billion) respectively.

19. Other assets

	2021 MNT'000	2020 MNT'000
Prepaid expenses and advances	14,064,547	24,907,800
Settlement receivables	7,701,212	4,296,893
Deferred employee benefit	2,332,243	3,306,669
Consumables and other office supplies	3,954,658	2,417,272
Precious metals	10,133,400	60,827
Prepayment made for construction	41,793,722	44,518,426
Other loan receivables	115,815,812	39,246,469
Less: Allowance for other loan receivables	(45,846,848)	(31,291,054)
	149,948,746	**87,463,302**
Foreclosed properties, net of impairment	50,102,847	38,511,494
	50,102,847	**38,511,494**
Total other assets	**200,051,593**	**125,974,796**

Included in prepaid expenses and advances are guarantee deposits held for international card payment organisations amounting to MNT 10,667 million (2020: MNT 10,557 million).

Deferred employee benefit represents outstanding fair value adjustments of the loans granted to its employees at preferential rates. In accordance with IFRS, fair value adjustments at initial recognition are recognised as deferred employee benefits and are amortised according to the terms of the loan.

19. Other assets (contd.)

Prepayment made for construction represents advance payments made to Riverstone Properties LLC ("Riverstone") to construct the Bank's new office building. Total of 52% (2020: 51%) of the total contract fee has been prepaid according to the construction agreement, from which 83% (2020: 81%) of the prepayment has been recorded as construction-in-progress (see Note 22) according to the actual construction progress. The construction is estimated to be complete by 2024.

Foreclosed properties represent real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of these assets in the foreseeable future. During 2021, the Bank charged total of MNT 27,650,688 thousand impairment with respect the foreclosed properties (Note 8).

Other loan receivables represent interest free or lower interest rate receivables from various entities for which the Bank recognised a day 1 loss at initial recognition and modification loss upon the extension of term of these receivables (see Note 8) and classified them as stage 2.

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

	2021 MNT'000	2020 MNT'000
Impairment allowance on other loan receivables		
At 1 January	31,291,054	270,511
Charge for the year	17,268,611	28,552,360
Reversal	(185,735)	(189,862)
Net charge for the year (Note 9)	17,082,876	28,362,498
Transfer from UBCB due to the Merger	–	2,657,881
Write-off during the year	(2,527,082)	–
Foreign exchange difference	–	164
At 31 December	**45,846,848**	**31,291,054**

20. Investment property

	2021 MNT'000	2020 MNT'000
At 1 January	148,990,218	80,897,528
Disposal	(20,898,204)	–
Transfer	(48,623,002)	42,338,393
Transfer from UBCB due to the Merger	–	5,631,893
Change in fair value (Note 8)	433,617	20,122,404
At 31 December	**79,902,629**	**148,990,218**

The Bank's investment property consists of office spaces. As at 31 December 2021, the fair values of the properties are based on valuations performed by independent professional valuation company. During 2021, the Bank transferred some properties into foreclosed properties, as there were change in use and therefore those properties no longer met the criteria for investment properties.

Fair value hierarchy disclosures and valuation techniques used in measuring the fair value, including the description of significant inputs used for investment properties are presented in Note 35.

21. Assets held for sale

	2021 MNT'000	2020 MNT'000
Buildings and real estate	3,216,435	4,138,693
Vehicle	389,529	–
	3,605,964	**4,138,693**

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

22. Property and equipment

	Buildings and land MNT'000	Office equipment and vehicles MNT'000	Computers and others MNT'000	Construction-in-progress MNT'000	Total MNT'000
At 31 December 2021					
At cost/valuation					
At 1 January 2021	254,033,081	16,053,322	44,224,612	195,184,101	509,495,116
Additions*	34,749,130	431,460	20,163,989	3,743,502	59,088,081
Disposals*	(40,428,964)	(684,436)	(311,751)	(2,409,040)	(43,834,191)
Write-offs (Note 10)	–	(224,593)	(1,359,306)	(15,000)	(1,598,899)
Reclassification	593,884	592,709	(592,709)	(593,884)	–
Transfer from prepayment	–	–	–	2,724,704	2,724,704
Impairment (Note 8)	(1,745,195)	–	–	–	(1,745,195)
Revaluation surplus (Note 31)	(404,557)	–	–	–	(404,557)
At 31 December 2021	246,797,379	16,168,462	62,124,835	198,634,383	523,725,059
Accumulated depreciation					
At 1 January 2021	13,337,362	8,235,479	29,278,264	–	50,851,105
Charge for the year (Note 10)	6,121,359	1,469,867	6,062,724	–	13,653,950
Disposals	(4,210,594)	(558,610)	(156,570)	–	(4,925,774)
Write-off (Note 10)	–	(196,531)	(1,247,997)	–	(1,444,528)
Revaluation (Note 31)	(15,248,127)	–	–	–	(15,248,127)
At 31 December 2021	–	8,950,205	33,936,421	–	42,886,626
Net carrying amount as at 31 December 2021	**246,797,379**	**7,218,257**	**28,188,414**	**198,634,383**	**480,838,433**

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

22. Property and equipment (contd.)

*In 2021, the Bank disposed of a premises with net book value of MNT 30,109,991 thousand to MIK in exchange for premises valued at MNT 34,069,934 thousand. The transaction had resulted in gain on disposal of MNT 3,959,943 thousand included within gain on disposal of property and equipment in Note 8.

Construction-in-progress account mainly consists of costs for construction of the Bank's new office building. The Bank made a contract to build its new corporate head office with Riverstone (see Note 19). The building is expected to be completed in 2024.

Buildings are carried at fair value. Had these buildings been recognised under the cost model as at 31 December 2021, the carrying amount of land and buildings would have been MNT 147,792 million (2020: MNT 114,610 million). In 2021, the Bank engaged an accredited independent valuer, to determine the fair value of its land and buildings. The fair value is determined based on market comparable approach. Fair value hierarchy disclosures and valuation techniques used in measuring the fair value, including the description of significant inputs used are presented in Note 35.

23. Right-of-use assets and Lease liabilities

The Bank has lease contracts for branch office spaces used in its operations. These leases on average have lease term of four years. The Bank's obligations under its leases are secured by the lessor's title to the leased assets. The Bank also has certain leases of office spaces, garages and ATM spaces with lease terms of 12 months or less. The Bank applies the 'short-term lease' recognition exemption for these leases.

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

	Right-of-use assets MNT'000	**Lease liabilities MNT'000**
As at 1 January 2020	12,717,699	(13,591,398)
Additions	1,682,331	(1,682,331)
Transfer from UBCB	1,085,892	(970,544)
Termination of lease	(487,733)	541,925
Depreciation charge for the year (Note 10)	(4,865,339)	–
Accretion of interest (Note 6)	–	(1,821,379)
Lease payments	–	6,139,205
As at 31 December 2020 and 1 January 2021	**10,132,850**	**(11,384,522)**
Additions	2,636,768	(2,636,768)
Lease modification	575,218	(575,218)
Termination of lease	(313,649)	366,393
Depreciation charge for the year (Note 10)	(5,128,494)	–
Accretion of interest (Note 6)	–	(1,219,631)
Lease payments	–	6,450,083
As at 31 December 2021	**7,902,693**	**(8,999,663)**

The Bank recognised rent expense from short-term leases of MNT 338,465 thousand for the year ended 31 December 2021 (2020: MNT 408,258 thousand). Also included within Utility expenses of Operating expenses are variable lease payments that do not depend on an index or rate of MNT 330,267 thousand for the year ended 31 December 2021 (2020: MNT 363,139 thousand). The maturity analysis of lease liabilities are disclosed in Note 37.

24. Intangible assets

	2021 MNT'000	2020 MNT'000
At cost		
At 1 January	16,495,667	17,061,275
Additions	333,455	381,917
Transfer from UBCB	–	1,947,423
Write-offs (Note 10)	(18,570)	(2,894,948)
At 31 December	16,810,552	16,495,667
Accumulated amortisation		
At 1 January	12,121,253	11,190,658
Charge for the year (Note 10)	2,373,456	2,421,188
Transfer from UBCB	–	1,058,279
Write-offs (Note 10)	(18,570)	(2,548,872)
At 31 December	14,476,139	12,121,253
Net carrying amount	**2,334,413**	**4,374,414**

25. Due to banks and other financial institutions

	2021 MNT'000	2020 MNT'000
Current accounts from banks and financial institutions	12,924,589	15,623,929
Time deposits from banks and financial institutions	1,014,124	87,322,215
	13,938,713	**102,946,144**

At 31 December 2021, time deposits included deposit from local banks denominated in MNT with interest rate of 7.80% per annum and original maturity from 16 to 25 months (2020: time deposits denominated in MNT with interest rate of 10.80% per annum on MNT and original maturity from 16 to 25 months).

26. Repurchase agreements

	2021 MNT'000	2020 MNT'000
Asset backed securities program	289,792,528	30,133,391
Reverse repurchase agreement with BoM	–	129,140,869
Troubled asset relief program	–	65,013,356
	289,792,528	**224,287,616**

In 2021, the Bank entered into 4 long-term reverse repurchase agreement with BoM, whereas the Bank sold unquoted BoM bills amounting MNT 248 billion (2020: MNT 30,290 million). The agreements were conducted under an asset backed security program being implemented, upon which the Bank shall disburse the financing to eligible borrowers and shall sell these loans to Securities Financing Corporation in return for Asset backed bonds. The agreements bears annual interests ranging between 6% to 6.5% and latest one shall mature in July 2023.

In 2016, the Bank entered into repurchase agreement with BoM, whereas the Bank sold DBM bonds (Note 15) under three separate repurchase agreements at an aggregate amount of MNT 65,000,000 thousand. The agreements bear annual interest of 7.5% and were fully settled during 2021.

27. Due to customers

	2021 MNT'000	2020 MNT'000
Government deposits		
- Current accounts	261,563,528	98,868,115
- Time deposits	129,848,194	190,123,522
- Demand deposits	–	101,586,079
- Guarantee and LC fund	10,460,656	10,779,093
Private sector deposits		
- Current accounts	1,570,264,127	901,330,229
- Time deposits	743,461,733	601,095,942
- Guarantee and LC fund	46,873,848	58,331,514
- Other	1,330,218	112,866
- Demand deposits	13,116	172,252,719
Individual deposits		
- Time deposits	2,588,822,991	2,392,848,222
- Demand deposits	467,962,077	471,415,909
- Current accounts	444,023,215	308,651,933
- Guarantee and LC fund	876,737	–
- Other	810,079	4,022,040
	6,266,310,519	**5,311,418,183**

28. Borrowed funds

	2021 MNT'000	2020 MNT'000
Borrowed funds from foreign banks and financial institutions		
VTB Bank Russia	196,497,229	39,138,422
Commerzbank AG	149,087,042	153,283,109
Bunge Asia Pte Ltd	77,558,817	–
Cargill financial services international, INC	71,245,689	–
International Investment Bank	42,946,483	–
International Bank for Economic Co-operation	41,231,474	12,741,515
Exim Bank of Russia	37,973,265	–
China Development Bank	29,460,000	–
Asian Development Bank	23,623,213	30,657,129
Transkapitalbank	21,373,394	42,860,755
Crown Agents Bank Limited	19,715,815	–
Atlantic Forfaitierungs AG	17,203,873	16,244,833
Japan International Cooperation Agency	16,381,458	19,747,864
Credit Bank of Moscow	13,051,403	7,168,132
Liger Holding International Co.Ltd	11,395,200	–
Oddo BHF AG	6,586,173	2,979,648
Intesa Sanpaolo SPA	5,431,571	8,705,169
Kreditanstalt fuer Wiederaufbau	3,204,355	5,102,212
Fintertech Co., Ltd	2,872,198	–
China Trade Solutions	1,042,136	2,075,364
International Development Association	1,040,862	1,109,650
Erste Group Bank AG	1,014,785	6,848,035
The Export-Import Bank of Republic of China	561,877	838,379
World Bank	184,668	243,602
Industrial and Commercial Bank of China	–	5,381,672
Bank of Inner Mongolia Co., Ltd	–	289,080
Crowdcredit Estonia OU	–	275,721
Borrowed funds from government organizations		
Mortgage Financing Programme by BoM and the Ministry of Finance	245,032,794	93,938,943
"Gold-2" programme financing by BoM	271,199,386	33,760,274
Bank of Mongolia - Petroleum project	100,032,877	–
Development Bank of Mongolia	1,001,247	74,583,772
Ministry of Finance	788,392	760,556
Education loan fund	2,453	2,518
	1,408,740,129	**558,736,354**

Borrowings are all unsecured except for the funds obtained from Commerzbank AG with outstanding balance of USD 50 million (2020: USD 50 million) and funds obtained from BoM under the "Gold-2" programme. The funds obtained from Commerzbank AG is secured by a cash deposit amounting to MNT 142.4 billion included within the placement with foreign bank as cash collateral (Note 14). The funds obtained under "Gold-2" programme is secured by unquoted BoM treasury bills with face value of MNT 247.1 billion (Note 15).

28. Borrowed funds (contd.)

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

- capital related ratios (such as risk weighted capital adequacy ratio, ratio between tier 1 capital and total capital);
- financial risks related ratios (such as aggregate foreign currency open position, single currency foreign exchange risk ratio, liquidity ratio);
- credit related ratios (such as single largest borrowers to the equity ratio, related party lending ratio and aggregate large exposures ratio);
- Other ratios (non-current assets to total assets, non-performing loans to total loan ratio, etc.).

In the case of non-compliance with covenants e.g., if the Bank defaults, the borrowing becomes immediately payable on demand. For this reason, the Bank monitors its compliance with BoM prudential ratios and other debt covenants on a monthly basis (See Note 38).

29. Debt securities issued

	2021 MNT'000	2020 MNT'000
Debt securities issued in domestic market	160,140,274	160,140,274

Under the TARP, the Bank issued MNT 160 billion debt securities to BoM on 28 June 2016 (See Note 18). The debt securities initial maturity was 28 June 2021 which was extended until June 2022 and bears annual interest rate of 8.0% payable semi-annually.

30. Other liabilities

	2021 MNT'000	2020 MNT'000
Liabilities for loans sold to MIK with recourse (Note 18)	200,678,622	558,248,580
Delay on clearing settlement	47,268,907	53,666,531
Payables to third parties	25,261,935	7,246,376
Provision on off-balance sheet commitments (Note 33)	7,321,963	16,569,803
Deferred revenue and income	5,889,115	3,732,611
Computer lease payable	450,982	1,034,874
Taxes payable other than income tax	1,221,633	2,680,345
Others	976,808	1,085,586
	289,069,965	**644,264,706**

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

Deferred revenue and income pertains to partial advances received for sale of foreclosed properties.

31. Share capital, Share premium and Other reserves

Share capital and share premium

	Number of ordinary shares 2021	2020	Share capital 2021 MNT'000	2020 MNT'000	Share premium 2021 MNT'000	2020 MNT'000
At 1 January	4,807,082	3,305,102	72,723,171	50,000,707	251,086,754	19,298,006
Issued during the year	–	1,501,980	–	22,722,464	–	231,788,748
Transfer	–	–	251,086,754	–	(251,086,754)	–
At 31 December	**4,807,082**	**4,807,082**	**323,809,925**	**72,723,171**	**–**	**251,086,754**

31. Share capital, Share premium and Other reserves (contd.)

The Bank has 5,000,000 shares authorized for issue (2020: 5,000,000 shares) from which total of 4,807,082 shares were issued and outstanding as of 31 December 2021 and 2020. All issued shares were fully paid and have a par value of MNT 67,361.01 (2020: MNT 15,128).

On 13 December 2021, Shareholders of the Bank had issued resolution to increase the par value of the Bank's share from MNT 15,128.34 to MNT 67,361.01 per share. The increase in par value was reflect by transferring funds from Share premium account into Share capital. The increase in par value and transfer of funds from share premium into share capital was respectively approved by BoM on 31 December 2021.

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

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

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

	2021	**2020**
The Globull Investment and Development PTE Ltd	64.00%	–
TDB Capital LLC (former United Banking Corporation LLC)	31.25%	31.25%
The Globull Investment and Development SCA	–	45.26%
Mr. Erdenebileg Doljin	–	13.71%
US Global Investment LLC	–	5.03%
GS Mongolia Investment Limited (Goldman Sachs)	3.28%	3.28%
Other individual and shareholders	1.47%	1.47%
	100.00%	**100.00%**

Other reserves

	Asset revaluation reserve MNT'000	**FVOCI revaluation reserve MNT'000**	**Regulatory reserve**	**Total MNT'000**
At 1 January 2021	168,958,820	24,257,321	27,165,494	220,381,635
Gain on revaluation of premises (Note 22)	14,843,570	–	–	14,843,570
Net loss on FVOCI instruments	–	(22,479,498)	–	(22,479,498)
Deferred tax liability	–	2,247,950	–	2,247,950
Recycling of revaluation reserve due to disposal	(32,613,320)	–	–	(32,613,320)
Net changes in allowance for ECL on debt instruments at FVOCI	–	331,301	–	331,301
Movement on regulatory reserve	–	–	27,431,694	27,431,694
At 31 December 2021	**151,189,070**	**4,357,074**	**54,597,188**	**210,143,332**
At 1 January 2020	129,231,895	21,922,916	27,404,985	178,559,796
Net loss on FVOCI instruments	–	5,047,983	–	5,047,983
Changes due to disposal and write-offs	(17,689)	–	–	(17,689)
Transfer from UBCB	39,744,614	–	3,669,414	43,414,028
Net changes in allowance for ECL on debt instruments at FVOCI	–	(36,016)	–	(36,016)
Deferred tax liability	–	(2,677,562)	–	(2,677,562)
Movement on regulatory reserve	–	–	(3,908,905)	(3,908,905)
At 31 December 2020	**168,958,820**	**24,257,321**	**27,165,494**	**220,381,635**

As of 31 December 2021 and 2020, the regulatory reserve consist of impairment for foreclosed assets.

31. Share capital, Share premium and Other reserves (contd.)

Dividend

On 1 October 2021, the Bank has declared a dividend of MNT 9,998,730 thousand to its shareholders in proportion to their ownership. The BoM had approved the dividend disbursement on 9 November 2021 and respectively the Bank has distributed the dividend on 18 November 2021.

32. Segment reporting

Segment information is presented in respect of the Bank's business segments. The primary format, operating segments, is based on the Bank's management and internal reporting structure.

Operating segments pay to and receive interest from the Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill.

Operating segments

The Bank comprises the following main operating segments:

Corporate Banking: Includes loans, deposits and other transactions and balances with corporate customers. The Bank classifies its customer as Corporate Banking customer, where the loan amount is greater than MNT 3 billion, or the borrower's sales amount reported in the financial statements is greater than MNT 6 billion (or, for customers whose financial statements are unavailable to the Bank, two-year average total income transacted through the current account held with the Bank is greater than 4 billion), and State-owned enterprises.

Small and Medium sized Enterprise ("SME") Banking: Includes loans, deposits and other transactions and balances with SME customers (both individuals and entities). The Bank classifies its customer as SME Banking customer, where the loan amount is below MNT 3 billion, or the borrower's sales amount is below MNT 6 billion (or, for customers whose financial statements are unavailable to the Bank, two-year average total income transacted through the current account held with the Bank is below 4 billion), and individuals receiving products and services with business nature.

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

International Banking: Includes the Bank's trading, corporate finance, borrowing from foreign financial institutions, issues of debt securities and bond in the international capital market.

Treasury: Undertakes the Bank's funding and centralised risk management activities through borrowings, use of derivatives for risk management purposes and investing in assets such as short-term placements and corporate and government debt securities. Operation is the Bank's funds management activities.

Others: Includes Headquarter operations and central shared services operation that manages the Bank's premises and certain corporate costs.

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

(contd.)

	Corporate Banking MNT'000	SME Banking MNT'000	Retail Banking MNT'000	International Banking MNT'000	Treasury MNT'000	Ot MNT'
(expense)	79,508,478	39,277,414	(97,947,596)	(20,832,262)	190,131,872	1,332,9
income	18,483,593	13,291,538	17,803,697	9,735,152	518,897	5,404,1
expenses	(2,543)	–	(16,719,066)	(57)	(140,497)	(3,938,6
erating income/(expense), net	(21,379,859)	2,352,915	(6,734,783)	–	7,905,694	4,450,4
xpense)	(79,985,571)	(880,553)	160,145,132	24,175,169	(163,375,933)	59,921,7
	(3,375,902)	54,041,314	56,547,384	13,078,002	35,040,033	67,170,6
	9,910,135	2,613,950	5,296,645	4,211,034	2,809,330	106,097,4
ssociate	–	–	–	–	–	28,728,9
(reversal) on financial assets	(48,443,708)	(2,274,800)	(24,307,745)	–	(30,386)	17,351,0
	35,157,671	53,702,164	75,558,484	8,866,968	32,261,089	(85,006,8
	–	–	–	–	–	15,729,0
year	**35,157,671**	**53,702,164**	**75,558,484**	**8,866,968**	**32,261,089**	**(100,735,9**
	3,321,669,894	**479,270,138**	**935,808,687**	**23,289**	**4,112,722,977**	**699,176,8**
	2,766,670,792	**992,344,518**	**3,544,265,433**	**759,100,506**	**424,148,842**	**42,033,0**
nortisation	27,282	14,866	5,149,002	14,078	9,047	15,941,6
*	2,424	816	–	5,128	880	25,342,3

(contd.)

	Corporate Banking MNT'000	SME Banking MNT'000	Retail Banking MNT'000	International Banking MNT'000	Treasury MNT'000	Ot MNT'
(expense)	142,840,097	51,393,715	(94,417,152)	(37,190,622)	144,555,494	(747,3
income	7,926,417	9,769,876	14,074,907	14,946,325	409,666	6,945,7
expenses	(3,561)	–	(11,666,633)	(463)	(131,248)	(2,906,9
ɔerating income/(expense), net	(7,799,437)	–	(5,657,950)	–	(20,762,595)	13,144,2
xpense)	(116,839,576)	5,229,836	177,072,921	13,851,987	(171,312,362)	91,997,1
expense)	26,123,940	66,393,427	79,406,093	(8,392,773)	(47,241,045)	108,432,9
	8,278,746	1,567,681	5,059,186	2,927,513	2,919,892	110,849,1
ssociate	–	–	–	–	–	14,501,8
on financial assets	28,841,631	30,327,554	52,014,250	–	1,614,477	23,317,3
	(10,996,437)	34,498,192	22,332,657	(11,320,286)	(51,775,414)	(40,235,5
	–	–	–	–	(1,921,609)	5,217,8
year	**(10,996,437)**	**34,498,192**	**22,332,657**	**(11,320,286)**	**(49,853,805)**	**(45,453,3**
	3,176,090,563	**288,300,849**	**644,729,364**	**31,289**	**3,166,690,715**	**769,679,2**
	2,218,416,046	**857,174,662**	**3,108,776,374**	**360,746,159**	**548,820,303**	**21,234,8**
ıortisation	187,927	1,278	4,879,336	16,288	155,581	15,024,(
*	1,453,202	6,301	25	3,543	–	3,838,5

ıdditions to property and equipment and intangible assets.

33. Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 34).

	2021 MNT'000	2020 MNT'000
Uncovered Guarantees and Letters of credit	352,804,653	289,565,616
Undrawn credit lines	297,095,737	275,547,390
	649,900,390	**565,113,006**

To meet financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 34).

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

	Uncovered Guarantees and Letters of credit MNT'000	Undrawn credit lines MNT'000	Total MNT'000
ECL allowance as at 1 January 2021	**14,824,112**	**1,745,691**	**16,569,803**
New exposures	2,515,836	3,316,564	5,832,400
Exposures derecognised or matured/lapsed	(14,037,775)	(1,042,814)	(15,080,589)
Net charge for the year (Note 9)	(11,521,939)	2,273,750	(9,248,189)
Foreign exchange adjustments	349	–	349
At 31 December 2021	**3,302,522**	**4,019,441**	**7,321,963**
ECL allowance as at 1 January 2020	**4,316,502**	**835,316**	**5,151,818**
New exposures	11,384,243	1,252,623	12,636,866
Exposures derecognised or matured/lapsed	(876,633)	(342,248)	(1,218,881)
Net charge for the year (Note 9)	10,507,610	910,375	11,417,985
At 31 December 2020	**14,824,112**	**1,745,691**	**16,569,803**

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

Uncovered Guarantees and Letters of credits

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2021	**223,239,601**	**11,471,531**	**54,854,484**	**289,565,616**
New exposures	248,684,732	–	–	248,684,732
Exposures derecognised or matured/lapsed	(169,210,170)	(11,003,209)	(5,232,316)	(185,445,695)
Transfer to/(from) Stage 1	39,131,553	–	(39,131,553)	–
Transfer to/(from) Stage 2	–	–	–	–
Transfer to/(from) Stage 3	(29,190,765)	(468,322)	29,659,087	–
At 31 December 2021	**312,654,951**	**–**	**40,149,702**	**352,804,653**
ECL allowance as at 1 January 2021	**785,998**	**2,603,661**	**11,434,453**	**14,824,112**
New exposures	2,515,836	–	–	2,515,836
Exposures derecognised or matured/lapsed	(10,238,947)	(2,603,661)	(1,195,167)	(14,037,775)
Transfer to/(from) Stage 1	10,244,129	–	(10,244,129)	–
Transfer to/(from) Stage 2	–	–	–	–
Transfer to/(from) Stage 3	(769,010)	–	769,010	–
Foreign exchange adjustment	349	–	–	349
At 31 December 2021	**2,538,355**	**–**	**764,167**	**3,302,522**

33. Contingent liabilities and commitments (contd.)

Uncovered Guarantees and Letters of credits (contd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2020	**188,687,884**	**160,104,858**	**1,483,172**	**350,275,914**
New exposures	174,649,887	–	–	174,649,887
Exposures derecognised or matured/lapsed	(133,718,293)	(93,304,707)	(8,337,185)	(235,360,185)
Transfer to/(from) Stage 1	3,785,294	(3,785,294)	–	–
Transfer to/(from) Stage 2	(916,211)	916,211	–	–
Transfer to/(from) Stage 3	(9,248,960)	(52,459,537)	61,708,497	–
At 31 December 2020	**223,239,601**	**11,471,531**	**54,854,484**	**289,565,616**
ECL allowance as at 1 January 2020	**475,328**	**3,274,490**	**566,684**	**4,316,502**
New exposures	11,259,405	124,838	–	11,384,243
Exposures derecognised or matured/lapsed	(281,770)	(28,179)	(566,684)	(876,633)
Transfer to/(from) Stage 1	21,918	(21,918)	–	–
Transfer to/(from) Stage 2	–	–	–	–
Transfer to/(from) Stage 3	(10,688,883)	(745,570)	11,434,453	–
At 31 December 2020	**785,998**	**2,603,661**	**11,434,453**	**14,824,112**

Credit quality of gross carrying amounts as at 31 December 2021 and 2020:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2021				
Performing	312,654,951	–	–	**312,654,951**
Special mention	–	–	40,149,702	**40,149,702**
Substandard	–	–	–	**–**
Doubtful	–	–	–	**–**
Loss	–	–	–	**–**
Total	**312,654,951**	**–**	**40,149,702**	**352,804,653**
At 31 December 2020				
Performing	223,239,601	–	–	**223,239,601**
Special mention	–	11,471,531	–	**11,471,531**
Substandard	–	–	54,854,484	**54,854,484**
Doubtful	–	–	–	**–**
Loss	–	–	–	**–**
Total	**223,239,601**	**11,471,531**	**54,854,484**	**289,565,616**

33. Contingent liabilities and commitments (contd.)

Undrawn credit balances

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2021	**249,364,112**	**21,129,401**	**5,053,877**	**275,547,390**
New exposures	166,605,550	10,895,014	–	177,500,564
Exposures derecognised or matured/lapsed	(131,455,487)	(18,613,031)	(5,883,699)	(155,952,217)
Transfer to/(from) Stage 1	1,419,311	(1,024,747)	(394,564)	–
Transfer to/(from) Stage 2	(651,704)	718,483	(66,779)	–
Transfer to/(from) Stage 3	(986,684)	(1,492,934)	2,479,618	–
At 31 December 2021	**284,295,098**	**11,612,186**	**1,188,453**	**297,095,737**
ECL allowance as at 1 January 2021	**1,566,649**	**173,398**	**5,644**	**1,745,691**
New exposures	3,284,190	32,374	–	3,316,564
Exposures derecognised or matured/lapsed	(972,924)	(67,357)	(2,533)	(1,042,814)
Transfer to/(from) Stage 1	109,380	(103,736)	(5,644)	–
Transfer to/(from) Stage 2	(2,242)	2,242	–	–
Transfer to/(from) Stage 3	(1,115)	(1,418)	2,533	–
At 31 December 2021	**3,983,938**	**35,503**	**–**	**4,019,441**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2020	**170,970,383**	**7,942,504**	**100,789**	**179,013,676**
New exposures	167,349,269	1,183,400	–	168,532,669
Exposures derecognised or matured/lapsed	(65,240,527)	(6,677,700)	(80,728)	(71,998,955)
Transfer to/(from) Stage 1	818,487	(768,618)	(49,869)	–
Transfer to/(from) Stage 2	(19,700,753)	19,700,753	–	–
Transfer to/(from) Stage 3	(4,832,746)	(250,939)	5,083,685	–
At 31 December 2020	**249,364,113**	**21,129,400**	**5,053,877**	**275,547,390**
ECL allowance as at 1 January 2020	**793,354**	**38,313**	**3,649**	**835,316**
New exposures	1,086,704	165,919	–	1,252,623
Exposures derecognised or matured/lapsed	(312,066)	(28,171)	(2,011)	(342,248)
Transfer to/(from) Stage 1	9,837	(9,837)	–	–
Transfer to/(from) Stage 2	(7,428)	7,428	–	–
Transfer to/(from) Stage 3	(3,752)	(254)	4,006	–
At 31 December 2020	**1,566,649**	**173,398**	**5,644**	**1,745,691**

33. Contingent liabilities and commitments (contd.)

Undrawn credit balances (contd.)

Credit quality of gross carrying amounts as at 31 December 2021 and 2020

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2021				
Performing	284,295,098	–	–	**284,295,098**
Special mention	–	11,612,186	–	**11,612,186**
Substandard	–	–	1,188,453	**1,188,453**
Doubtful	–	–	–	**–**
Loss	–	–	–	**–**
Total	**284,295,098**	**11,612,186**	**1,188,453**	**297,095,737**
At 31 December 2020				
Performing	249,364,113	–	–	**249,364,113**
Special mention	–	21,129,400	–	**21,129,400**
Substandard	–	–	5,053,877	**5,053,877**
Doubtful	–	–	–	**–**
Loss	–	–	–	**–**
Total	**249,364,113**	**21,129,400**	**5,053,877**	**275,547,390**

As of 31 December 2021, the Bank had capital commitments for construction in progress of USD 98 million (2020: USD 99 million) (Note 19 and 22).

Contingent liabilities

Guarantees and letter of credits commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to tender and bid auction. They generally carry the same risk as loans even though they are of a contingent nature.

Commitments

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

Undrawn credit lines

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorized credit line. With respect to credit risk on commitments to extend credit, the Bank can be exposed to loss in an amount equal to the total unused credit commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining certain specific credit standards.

Legal claims

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

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

33. Contingent liabilities and commitments (contd.)

Tax legislation

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

Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Mongolian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, including those related to domestic transfer pricing. In case of deviation of transaction terms from market terms, the tax authorities have the right to adjust taxable items and to impose additional taxes, fines and interest penalties. Given the brief nature of the current Mongolian transfer pricing rules, the impact of any such challenge cannot be reliably estimated. However, it may be significant to the financial position and/or the overall operations of the entity.

Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax and other areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Management performs regular re-assessment of tax risks and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

34. Risk management

(1) Introduction

The main risks inherent in the Bank's operations are credit risks, liquidity risks and market risks. The Bank's Credit Underwriting Department ("CUD") is responsible for managing the Bank's credit risks, while Risk Management Policy and Validation Department is responsible for managing market and liquidity risks. This note provides information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management structure

The Board of Directors ("BoD") is responsible for the overall risk management approach and for approving the risk policy and credit policy which specify risk appetite and tolerances. However, there are separate independent bodies responsible for managing and monitoring risks.

Representative Governing Board ("RGB")

The Bank's Representative Governing Board is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The RGB is assisted in these functions by Internal Audit.

Internal Audit

Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the RGB. Internal audit examines both the adequacy of the procedures and the Bank's compliance with the procedures.

Executive Committee

The Executive Committee consists of all the executive management of the Bank and is chaired by the CEO and holds regular meetings to discuss and decide the Bank's strategic issues and planning required for sustainable business management.

Asset and Liability Committee ("ALCO")

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

Risk Management Committee ("RMC")

RMC is responsible for anticipating and managing new and ongoing financial risk across business departments and maintaining appropriate limits on risk taking, adequate systems and standards for measuring operational risk, credit risk and performance, comprehensive risk reporting and management review process.

Credit Committees

The Bank's Credit Committee's structure was established to manage the Bank's credit risk at various levels. The Bank following types of credit committees for loan approval and monitoring:

1. General credit committee is responsible for the overall credit policies and procedures of the Bank and currently approves all credit exposures above MNT 500 million.
2. Retail credit committee approves credit exposures exceeding the branch credit committee approval limit and up to MNT 500 million.
3. Salary and savings backed loan credit committee approves salary and pension loans exceeding MNT 20 million.
4. Branch credit committee, depending on the branch size approves credit exposures from MNT 60 million up to MNT 180 million, and salary and pension loans up to MNT 20 million.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

34. Risk management (contd.)

(1) Introduction (contd.)

Risk measurement and reporting system

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the BOD, RGB, ALCO, RMC and Credit Committees, and the head of each business departments. The reports include the aggregate credit exposure, credit metric forecasts, liquidity ratios and risk profile changes.

Both ALCO and RMC receive a comprehensive risk report every quarter which is designed to provide all the necessary information to assess and conclude on the risk exposure of the Bank. Bi-weekly briefing is presented to the ALCO on the utilisation of market limits, analysis, and liquidity, and any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses basis sensitivity analysis to measure and analyse exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions. The Bank actively utilizes collaterals and personal guarantees to reduce its credit risks.

Excessive Risk Concentration

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

At the individual basis, BoM sets the standards of limitation as follows:

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

The Bank's policy requires it to maintain sufficient liquidity corresponding to the level of deposit concentration.

34. Risk management (contd.)

(2) Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties fail to fulfil their contractual obligations. The Bank manages and controls credit risk by carefully screening credit applications, setting interest rate adjusted for risk level, and setting limits on credit exposures for individual counterparties, geographical area, and industry, and monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to identify potential losses and take early corrective actions.

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

Credit-related Commitments Risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. 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. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Impairment assessment

Definition of default, impaired and cure

The Bank considers exposure to be in default for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments, or where the obligor is unlikely to repay the exposure fully without the Bank’s realisation of collaterals.

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

- An exposure is forborne or modified due to financial difficulties of the borrower
- The debtor’s exposure to the Bank is more than 90 days past due
- Internal rating of the borrower indicating default or near-default
- The borrower is deceased or became disabled
- The borrower’s operations had experienced unexpected operational risks
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- The debtor filing for official bankruptcy

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

The Bank’s internal rating and PD estimation process

The Bank’s Credit Underwriting Department operates its internal rating models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower’s behaviour. Where practical, they also build on information from international rating agencies, such as Moody’s, Standard & Poor’s and/or Fitch rating. These information sources are first used to determine the stage classification of the exposures.

The PD for loans and advances to customers is derived from historical data and adjusted to incorporate forward looking information using available forecasts projected from relevant macroeconomic factors, when applicable. The PD is defined as conditional PD given that the account has not defaulted in prior periods taking into account full and partial prepayments, therefore the marginal PD’s are considered to build the PD curve. Further, the Bank uses cohort analysis to estimate the multi period PD curves.

The PD model used for financial assets other than loans and advances are based on rating matrices and are derived using international credit ratings of the counterparties, which intrinsically contains forward-looking information.

34. Risk management (contd.)

(2) Credit risk (contd.)

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's Risk Management Policy and Validation Department analyses publicly available external information such the ratings of international rating agencies, e.g. Moody's, and assigns the internal rating.

Corporate and SME loans

For corporate and SME loans, the borrowers are assessed by loan specialists under the supervision of the credit risk analysts from CUD. The credit risk assessment takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties.
- Any macro-economic or geopolitical information relevant to the borrower and/or portfolio
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the borrower's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Retail loans

Retail loans comprises all types of consumer loans, mortgage loans, credit cards and overdrafts. These products along with some of the less complex SME loans are rated by methodology primarily driven by days past due. Herein: demographics, credit history of loan applicants, collateral, current income levels, changes in account income, outstanding liabilities and desired loan conditions.

The Bank's internal credit rating grades

Internal rating	**Internal rating description**	**International rating (when applicable)**
Performing	High grade	A- to AA+ rated
Special mention	Upper medium grade	BBB- to BBB+
Substandard	Lower medium grade	B- to BB+
Doubtful	Low grade	Caa-C
Loss	Credit impaired	–
Not rated	Not rated	–
Individually impaired	Individually impaired	–

Exposure at default

The EAD represents the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD of a financial asset represents its gross carrying amount subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 2.5.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

34. Risk management (contd.)

(2) Credit risk (contd.)

Exposure at default (contd.)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortising product and bullet repayment loans, this is based on the contractual repayments owed by the borrower over 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For the revolving products, the EAD is predicted by taking current drawn balance and adding "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization.

Loss given default

LGD represents the Bank's expectation of the extent of loss on defaulted exposure. LGD varies by customer segments, which represents customer potential and credit exposure. LGD is expressed as a percentage loss per unit of exposures at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

LGD varies over time depending on the payments and the value of collateral. The key elements of the LGD coefficient are:

- Time dimension (dividing the EAD parameter into a secured and unsecured part) and
- Change in the value of collateral over time (in the case of such collateral as real estate, the value may remain unchanged)

In the absence of collateral for the financial instrument and sufficient historical data on default, the Bank applies expert judgment. Depending on the circumstances and completeness of the data at the reporting date, the Bank applies historical data approach or historical data from external sources to determine the LGD coefficient in stages.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The Bank applies qualitative method for triggering a significant increase in credit risk for an asset, such as the account becoming forborne. In certain cases, the Bank may also consider that events explained in "Definition of default" are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECL on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on collective basis

As explained in Note 2.5 *"Overview of the ECL principles"* dependant on the factors below, the Bank calculates the allowance for ECL either on collective or individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- Stage 3 borrowers who have total exposure of more than MNT 5 billion
- Stage 3 borrowers with exposure of less than MNT 5 billion, who relate to a group of related parties for which the total group exposure exceed MNT 5 billion
- Large and unique exposures of the Corporate loan portfolio regardless of the staging

Asset classes where the Bank calculates ECL on a collective bases include all the remaining exposures not assessed individually. The bank groups these exposures into smaller portfolios, based on customer segments:

  - Corporate loans
  - SME loans
  - Retail loans

34. Risk management (contd.)

(2) Credit risk (contd.)

Analysis of inputs to ECL model – forward looking information

The Bank has incorporated the effect of future macroeconomic developments into the ECL by applying forward-looking information on the component of the ECL, the PD. A simple linear model was built to analyse the relationship between the observed default rates and macroeconomic variables. The data set includes quarterly time series of main macro indicators and probability of default per customer segment. Macroeconomic variables are taken from the database of the National Statistical Office and BoM, and PD rates are derived from the bank's internal database. The Bank has selected GDP growth with one year quarter lag and Policy rate for Retail, SME and Corporate loans for 2021 (for 2020, GDP growth and Inflation rate for Retail loans, Credit growth and Money M2 growth for SME and Corporate loans), which had the highest correlation with the default rate.

In terms of the methodology, correlation analysis was conducted initially to preselect the suitable macroeconomic variables. Then coefficients were estimated applying simple regression analysis. From the estimated coefficients and forecasts, adjustment factors to incorporate forward-looking information into PD were derived as the ratio between the predicted default rate and historical average default rate. These adjustment factors and adjusted PD rates are considered as Base scenario for ECL model, as it represents the best prediction of the future economic development. The good and bad scenarios are derived from historical adjustment factors based on the model predicted default rates and selected as certain quantiles of the adjustment factor distribution. Expected loss for different scenarios are calculated based on those estimated PD rates under the different scenarios, and the actual expected credit loss allowance is estimated as weights of 3 scenarios: 10% for Good and Bad, and 80% for Base scenario.

The following table sets out the results of adjustment factors under 3 different scenarios:

31 December 2021

	Corporate loans	SME loans	Retail loans
Bad case	2.0515	2.0515	1.9102
Base case	1.5049	1.5049	1.4340
Good case	0.4702	0.4702	0.5423

31 December 2020

	Corporate loans	SME loans	Retail loans
Bad case	1.6457	1.6457	1.7978
Base case	0.8268	0.8268	0.9244
Good case	0.3763	0.3763	0.5170

Overview of modified and forborne loans

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

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

	2021 MNT'000	2020 MNT'000
Restructured loans		
Gross carrying amount	64,091,637	100,863,249
Corresponding ECL	(30,898,992)	(39,142,484)

34. Risk management (contd.)

(2) Credit risk (contd.)

Analysis of risk concentration

Disclosure of credit quality and maximum exposure for credit risk based on the Bank's internal credit rating system and year-end stage classification are disclosed in Notes 13, 14, 15 and 16 where relevant.

The table below show the analysis per industry sector of the Bank's loans and advances to customers (Note 18) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

	Gross maximum exposure			
	2021 MNT'000	%	2020 MNT'000	%
Trading	1,183,191,976	23%	1,081,692,227	23%
Mining and quarrying	910,296,524	18%	803,578,265	17%
Construction	520,921,588	10%	524,422,331	11%
Financial service	373,142,568	7%	345,712,884	7%
Manufacturing	515,616,099	10%	463,561,209	10%
Mortgage loan	517,222,290	10%	350,247,810	8%
Card loan	251,922,005	5%	226,539,171	5%
Hotel, restaurant and tourism	166,213,301	3%	166,055,406	4%
Transportation and communication	137,752,916	3%	83,985,658	2%
Deposit collateralized loan	93,026,232	2%	58,371,395	1%
Health	43,576,125	1%	40,198,807	1%
Education	80,961,554	2%	72,568,273	2%
Electricity and thermal energy	31,187,578	1%	24,967,725	1%
Agriculture	22,047,101	0%	25,461,384	1%
Other	271,721,499	5%	353,613,926	8%
	5,118,799,356	**100%**	**4,620,976,471**	**100%**

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

Collateral and other credit enhancements

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

- corporate lending: charges over real-estate properties, equipment and machineries;
- retail lending: charges over automobiles and assignment of income; charges over real estate properties; and mortgages over residential properties;
- small and medium-sized enterprise lending: charges over real estate properties.

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

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

Disclosure of credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year end stage classification are further disclosed in Notes 13, 14, 15 and 16.

Where financial instruments are recorded at fair value the amounts shown in Note 15 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.

34. Risk management (contd.)

(2) Credit risk (contd.)

Collateral and other credit enhancements (contd.)

The table below summarise the Bank's collateral for loans and advances:

	2021		2020	
	Gross MNT'000	Fair value of collaterals MNT'000	Gross MNT'000	Fair value of collaterals MNT'000
Corporate	3,672,863,022	2,652,553,356	3,531,609,201	1,465,921,794
SME	535,436,302	477,497,748	410,377,769	315,859,385
Retail	572,177,859	319,753,238	530,905,759	308,809,627
	4,780,477,183	**3,449,804,342**	**4,472,892,729**	**2,090,590,806**

Credit concentration ratio

As stipulated in the Banking Law of Mongolia, the total value of loans, loan equivalent assets and guarantees provided to single borrower or group of related borrowers shall not exceed 20% of the total equity of the Bank. The maximum value of loans, loan equivalent assets and guarantees provided to a shareholder, the chairman, a member of the Representative Governing Board, an executive director or a bank officer or any related person thereof shall not exceed 5% of the capital of the Bank, and the total amount shall not exceed 20% of the capital of the Bank respectively.

As at 31 December 2021 and 2020, certain loans disbursed to single borrower and its' group of related borrowers exceeded the regulatory ratio limit on the single borrower exposure of 20%. The total excess amount was MNT 4,259 million (2020: MNT 14,572 million), which was adjusted when assessing core capital adequacy and risk-weighted capital ratios (See Note 38).

(3) Liquidity risk

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

The Bank is exposed to frequent calls on its available cash resources from current deposits, maturing deposits and loan drawdowns. The Bank's ALCO sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities, which is in line with the liquidity ratio described in Banking Law of Mongolia.

For this purpose the Bank maintains a liquidity ratio; calculated as a ratio of a the Bank's liquid assets, including cash on hand, deposits and placements with banks and other financial institutions, balances with BoM and investment securities to the Bank's liquid liabilities; including deposit from customers, deposits and placements from the banks and other financial institutions, loans from foreign financial institutions, taxation and debt securities issued.

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

	2021	2020
At 31 December	40.6%	39.3%

Analysis of financial assets and financial liabilities by remaining contractual maturities

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

(contd.)

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ssets and financial liabilities by remaining contractual maturities (contd.)

	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 year MNT'00
Bank of Mongolia	976,548,511	8,017,940	–	–	–	-
nd financial institutions	405,038,221	101,772,804	–	–	–	-
	60,692,439	1,271,633,439	93,249,457	241,384,642	939,200,934	634,783,05
	–	863,327,381	1,245,156	2,147,447	135,860,418	-
	–	(798,718,006)	(2,623,675)	(3,897,800)	(137,754,694)	-
customers	649,683,374	638,054,503	479,178,506	1,119,480,176	2,815,075,468	1,385,374,37
	126,484,571	7,701,212	–	–	–	-
	2,218,447,116	2,091,789,273	571,049,444	1,359,114,465	3,752,382,126	2,020,157,43
financial institutions	12,938,713	–	–	1,057,485	–	-
	–	–	–	31,917,764	279,002,309	-
	2,810,243,953	1,117,061,112	704,809,250	1,169,427,606	617,578,194	23,249,10
	–	(802,772,467)	–	(9,298,099)	(310,630,156)	-
	–	872,643,457	–	2,687,736	301,286,951	-
	117,283,832	112,766,644	17,883,897	257,832,573	965,512,018	46,555,61
	–	–	166,382,466	–	–	-
	–	1,703,352	1,703,352	3,394,578	3,751,781	-
s	–	73,958,633	–	–	255,519,365	1,300,94
nd Letters of credit	352,804,653	–	–	–	–	-
	297,095,737	–	–	–	–	-
	3,590,366,888	1,375,360,731	890,778,965	1,457,019,643	2,112,020,462	71,105,66
	(1,371,919,772)	716,428,542	(319,729,521)	(97,905,178)	1,640,361,664	1,949,051,76

(contd.)

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ssets and financial liabilities by remaining contractual maturities (contd.)

	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 yea MNT'0
Bank of Mongolia	856,968,353	3,204,305	–	–	–	-
ıd financial institutions	568,506,799	3,795,827	–	–	–	-
	28,832,561	757,499,229	85,270,106	183,280,123	779,307,028	341,867,41
	–	26,002,783	–	20,224,183	861,514,313	-
	–	(25,322,315)	–	(23,506,165)	(800,274,202)	-
customers	189,186,083	512,212,056	626,875,132	1,137,420,171	2,218,845,721	915,070,61
	49,803,903	4,296,893	–	–	–	-
	1,693,297,699	1,281,688,778	712,145,238	1,317,418,312	3,059,392,860	1,256,938,02
financial institutions	40,848,599	–	–	–	98,902,531	-
	–	129,239,828	–	69,300,685	33,867,753	-
	1,840,064,284	952,551,409	955,538,695	1,171,256,025	489,928,661	27,878,71
	–	(33,571,554)	(410,650)	(26,996,990)	(1,153,123,954)	-
	–	39,470,070	1,833,386	31,035,997	1,238,423,143	-
	760,631	137,349,576	29,844,204	116,967,635	294,358,845	12,624,25
	–	–	166,382,466	–	–	-
	–	1,695,184	1,695,184	3,390,368	7,083,510	-
s	–	63,033,367	–	–	641,477,303	4,270,38
ınd Letters of credit	289,565,616	–	–	–	–	-
	275,547,390	–	–	–	–	-
	2,446,786,520	1,289,767,880	1,154,883,285	1,364,953,720	1,650,917,792	44,773,35
	(753,488,821)	(8,079,102)	(442,738,047)	(47,535,408)	1,408,475,068	1,212,164,67

34. Risk management (contd.)

(4) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect bank's profitability, future cash flows or the fair values of financial instruments. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Bank's net interest income, while a long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures will be affected. Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. An analysis of the Bank's sensitivity to a 100 basis point (BP) increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	Change in basis points	Sensitivity of net interest income MNT'000	Risk limit set for profit or loss MNT'000	Sensitivity of equity MNT'000	Risk limit set for equity MNT'000
At 31 December 2021					
Currency					
USD	+/- 100	+/- 5,740,349	+/- 241,711,954	+/- 5,166,314	+/- 241,711,954
MNT	+/- 100	+/- 32,308,020	+/- 241,711,954	+/- 29,077,218	+/- 241,711,954
OTHER	+/- 100	+/- 2,215,464	+/- 241,711,954	+/- 1,993,918	+/- 241,711,954
At 31 December 2020					
Currency					
USD	+/- 100	-/+ 228,389	+/- 208,619,898	-/+ 205,550	+/- 208,619,898
MNT	+/- 100	-/+ 7,821,147	+/- 208,619,898	-/+ 7,039,032	+/- 208,619,898
OTHER	+/- 100	+/- 68,403	+/- 208,619,898	+/- 61,563	+/- 208,619,898

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ALCO sets limits on the level of exposure by currencies (primarily USD), which are monitored on a frequent basis. The Bank manages its currency risk primarily through ensuring compliance with the prudential ratio for foreign currency open position established by the BoM and through assessing the impact of foreign currency exchange rate movements on the Bank's liquidity and profitability. Also the Bank uses limits, calculated using Value-at-Risk method, for foreign exchange risk management. ALCO approves stop loss limits for overall currency positions on a quarterly basis. Market Risk Department oversees that the currency exchange operations are managed within the approved limits.

Objectives and limitations of the VaR Methodology

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

34. Risk management (contd.)

(4) Market risk (contd.)

Currency risk (contd.)

Objectives and limitations of the VaR Methodology (contd.)

VaR limits have been established for all foreign currency open positions and exposures are reviewed daily against the limits by management. The estimated potential one-day losses on its foreign currency denominated financial instruments, as calculated in the VAR models are the following:

	Historical Simulation 2021 MNT'000	2020 MNT'000
31 December	(708,488)	(87,633)
Average Daily	(843,269)	(1,083,260)
Highest	(1,237,652)	(1,958,827)
Lowest	(83,473)	(87,633)

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

	2021 MNT denominated MNT'000	2021 Foreign currencies MNT'000	2021 Total MNT'000	2020 MNT denominated MNT'000	2020 Foreign currencies MNT'000	2020 Total MNT'000
Financial assets						
Cash and balances with Bank of Mongolia	217,353,302	758,998,935	976,352,237	391,718,017	465,079,758	856,797,775
Due from other banks and financial institutions	–	504,417,550	504,417,550	1,501,808	568,499,846	570,001,654
Financial investments	2,509,400,449	93,246,654	2,602,647,103	1,685,570,928	25,584,807	1,711,155,735
Derivative financial instruments	87,403,498	14,244,000	101,647,498	89,371,192	–	89,371,192
Loans and advances to customers	4,572,693,719	15,771,686	4,588,465,405	2,961,290,908	1,063,836,340	4,025,127,248
Other financial assets	74,311,973	14,026,959	88,338,932	9,464,696	13,345,047	22,809,743
	7,461,162,941	1,400,705,784	8,861,868,725	5,138,917,549	2,136,345,798	7,275,263,347
Financial liabilities						
Due to banks and other financial institutions	3,018,387	10,920,326	13,938,713	88,867,977	14,078,167	102,946,144
Repurchase agreements	289,792,528	–	289,792,528	224,287,616	–	224,287,616
Due to customers	4,033,034,308	2,233,276,211	6,266,310,519	3,039,576,543	2,271,841,640	5,311,418,183
Derivative financial instruments	78,035,961	–	78,035,961	99,723,102	–	99,723,102
Borrowed funds	660,996,891	747,743,238	1,408,740,129	257,236,999	301,499,355	558,736,354
Sub-ordinated debt	–	–	–	–	–	–
Debt securities issued	160,140,274	–	160,140,274	160,140,274	–	160,140,274
Lease liabilities	8,999,663	–	8,999,663	11,384,522	–	11,384,522
Other financial liabilities	261,454,257	13,182,997	274,637,254	585,013,657	36,268,290	621,281,947
	5,495,472,269	3,005,122,772	8,500,595,041	4,466,230,690	2,623,687,452	7,089,918,142
Off-balance foreign currency exposure, net		425,866,057			350,481,276	
Net foreign currency exposure		(1,178,550,931)			(136,860,378)	

34. Risk management (contd.)

(4) Market risk (contd.)

Currency risk (contd.)

An analysis of the Bank's open position sensitivity to a 10 percent appreciation or depreciation of MNT against USD (assuming all other variables constant) is as follows:

	Change in currency rate	Sensitivity of open position MNT'000	Risk limit for net positions MNT'000
At 31 December 2021			
Currency			
USD	+/- 10%	+/- 6,978,181	+/- 230,000,000
OTHER	+/- 10%	+/- 9,553,834	+/- 230,000,000
At 31 December 2020			
Currency			
USD	+/- 10%	+/- 3,220,395	+/- 230,000,000
OTHER	+/- 10%	+/- 7,626,615	+/- 230,000,000

Prepayment risk

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

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income. If 20% of repayable financial instruments were prepaid at the beginning of the year, with all other variables held constant, the interest income for the year would be reduced by MNT 114,665,796 thousand (2020: MNT 141,574,083 thousand).

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

35. Fair value disclosures

Determination of fair value and fair value hierarchy

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

35. Fair value disclosures (contd.)

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

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

At 31 December 2021	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
Debt instruments measured at FVOCI				
Quoted government bonds	58,774,436	–	–	58,774,436
Unquoted BoM treasury bills	–	1,661,230,725	–	1,661,230,725
MIK USD bond	34,429,486	–	–	34,429,486
Equity instruments measured at FVOCI				
Unquoted equities	–	–	3,395,537	3,395,537
Equity securities, at fair value	54,267,410	–	–	54,267,410
Financial assets at FVTPL				
Residential mortgage-backed securities	–	–	199,870,221	199,870,221
Loans and advances to customers at FVTPL	–	338,322,173	–	338,322,173
Derivative financial instruments	–	101,647,498	–	101,647,498
Non-financial assets				
Revalued properties	–	–	246,797,379	246,797,379
Investment properties	–	–	79,902,629	79,902,629
	147,471,332	**2,101,200,396**	**529,965,766**	**2,778,637,494**
Financial liability				
Derivative financial instruments	–	78,035,961	–	78,035,961
	–	**78,035,961**	**–**	**78,035,961**

At 31 December 2020	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
Debt instruments measured at FVOCI				
Quoted government bonds	25,542,064	–	–	25,542,064
Unquoted BoM treasury bills	–	688,492,320	–	688,492,320
Equity instruments measured at FVOCI				
Unquoted equities	–	–	7,313,358	7,313,358
Equity securities, at fair value	27,108,838	–	–	27,108,838
Financial assets at FVTPL				
Residential mortgage-backed securities	–	–	127,666,125	127,666,125
Loans and advances to customers at FVTPL	–	148,083,742	–	148,083,742
Derivative financial instruments	–	89,371,192	–	89,371,192
Non-financial assets				
Revalued properties	–	–	240,695,719	240,695,719
Investment properties	–	–	148,990,218	148,990,218
	52,650,902	**925,947,254**	**524,665,420**	**1,503,263,576**
Financial liability				
Derivative financial instruments	–	99,723,102	–	99,723,102
	–	**–**	**–**	**99,723,102**

Transfers between level 1, 2 and 3

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

35. Fair value disclosures (contd.)

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

	Fair value 2021 MNT'000	2020 MNT'000	Valuation technique	Inputs
Financial assets				
Unquoted BoM treasury bills	1,661,230,725	688,492,320	Market value approach	Central bank policy and repo rates
Loans and advances to customers at FVTPL	338,322,173	148,083,742	Discounted Cash Flow approach	Future cash flows, PD, LGD and market interest rate of instruments
Derivative financial instruments	101,647,498	89,371,192	Discounted Cash Flow approach	Libor rate, repo rate, government bond yield, exchange rate, commodity forward price, USD discount rate, PD
Financial liabilities				
Derivative financial instruments	78,035,961	99,723,102	Discounted Cash Flow approach	Libor rate, repo rate, government bond yield, exchange rate

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

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

At 31 December 2021	Fair value MNT`000	Reasonable change	Sensitivity of the input to fair value MNT'000	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
Residential mortgage-backed securities	199,870,221	+/- 1%	+/- 1,998,702	Discounted Cash Flow method	Market interest rates	7.0% - 9.0%
Unquoted equities	3,395,537	+/- 10%	+/- 339,554	Net assets value	Market share price, Transaction price	MNT 1,000 - MNT 5,691,675
Non-financial assets						
Revalued properties	246,797,379	+/- 10%	+/- 24,679,738	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 0.5 million - 2.4 million per sq meter; MNT 2.5 - 8.7 million per sq.meters
Investment properties	79,902,629	+/- 10%	+/- 7,990,263	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 5.2 million - 8.3 million per sq.meters

35. Fair value disclosures (contd.)

At 31 December 2020	Fair value MNT`000	Reasonable change	Sensitivity of the input to fair value MNT'000	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
Residential mortgage-backed securities	127,666,125	+/- 1%	+/- 1,276,661	Discounted Cash Flow method	Market interest rates	7.0% - 9.0%
Unquoted equities	7,313,358	+/- 10%	+/- 731,336	Net assets value	Market share price, Transaction price	MNT 1,000 - MNT 5,691,675
Non-financial assets						
Revalued properties	240,695,719	+/- 10%	+/- 24,069,572	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 3.5 - 6.5 million per sq.meters
Investment properties	148,990,218	+/- 10%	+ 14,627,879/ - 15,120,866	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 4.0 million - 5.3 million per sq.meters; MNT 8.1 million - 8.2 million per sq.meters

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

Movements in fair value measurements within Level 3 during the year

	2021 MNT'000	2020 MNT'000
Residential mortgage-backed securities		
At 1 January	127,666,125	97,023,096
Addition	102,858,400	57,407,600
Sold	(36,061,600)	(45,439,400)
Interest accrued	14,266,919	11,983,971
Interest received	(8,859,623)	(11,376,516)
Transfer from UBCB due to the Merger	–	18,067,374
At 31 December	**199,870,221**	**127,666,125**
Unquoted equity		
At 1 January	7,313,358	3,876,615
Transfer from UBCB due to the Merger	–	3,436,743
Disposal	(3,917,821)	–
At 31 December	**3,395,537**	**7,313,358**

35. Fair value disclosures (contd.)

Movements in fair value measurements within Level 3 during the year (contd.)

	2021 MNT'000	2020 MNT'000
Revalued properties		
At 1 January	240,695,719	170,323,196
Addition	34,749,130	3,125,000
Transfer	593,884	–
Disposal	(36,218,370)	(3,117,407)
Depreciation charged in profit or loss	(6,121,359)	(4,838,078)
Revaluation	13,098,375	–
Transfer from UBCB due to the Merger	–	75,203,008
At 31 December	**246,797,379**	**240,695,719**
Investment properties		
At 1 January	148,990,218	80,897,528
Disposal	(20,898,204)	–
Transfer	(48,623,002)	42,338,393
Transfer from UBCB due to the Merger	–	5,631,893
Revaluation	433,617	20,122,404
At 31 December	**79,902,629**	**148,990,218**

Revaluation of properties and investment properties

The properties' fair values are based on valuations performed by an accredited independent valuer. The fair value of the land and buildings were determined using market approach. Market approach means that the valuations performed by the valuer were based on transactions and advertised process for similar buildings in the market, applying comparison adjustments for location, condition age, listing, and similar factors.

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

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia. Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments in the financial statements where there is a significant difference between the two values which are categorized in level 2.

35. Fair value disclosures (contd.)

Fixed rate financial instruments (contd.)

As at 31 December 2021	Carrying amount MNT'000	Fair value MNT'000
Financial assets		
Loans and advances to customers	4,588,465,405	4,639,813,219
Debt instruments at amortised cost	590,679,288	601,122,783
Financial liabilities		
Due to customers	6,266,310,519	6,249,211,370
Borrowed funds	1,408,740,129	1,408,740,129
Debt securities issued	160,140,274	160,140,274
As at 31 December 2020		
Financial assets		
Loans and advances to customers	4,025,127,248	4,179,475,842
Investment securities held to maturity	835,033,030	857,425,440
Financial liabilities		
Due to customers	5,311,418,183	5,304,351,899
Borrowed funds	558,736,354	558,736,354
Debt securities issued	160,140,274	160,140,274

36. Related party disclosures

The following are considered as related parties of the Bank:

- Valiant Art LLC - The Bank's executive officer's immediate relative owns Valiant Art LLC
- TDB Securities LLC (former TDB Capital LLC) – The company is subsidiary of TDB Capital LLC (former United Banking corporation LLC) , the shareholder of the Bank
- MIK – An associate (see Note 16)
- Mongolian General Leasing LLC and its subsidiaries ("MGLL") – The Bank owns 10% equity interest in MGLL
- National News Corporation LLC ("NNC") – The Bank owns 9.85% equity interest in NCC
- NNC Publishing LLC, JCDecaux LLC - The companies are subsidiaries of NNC
- CNB Consulting LLC ("CNB") – CEO of CNB is immediate family member of the beneficial owner of the Bank
- Absolute Management LLC – The company is owned by close family member of beneficial owner of the Bank
- Times Media Corporation – The company is subsidiary of TDB Capital LLC
- Mongolian National Rare Earth Corporation LLC ("MNREC") - in 2016, the Bank has repossessed the shares of MNREC in accordance with the terms and conditions of the loan agreement made between the Bank and the shareholders of MNREC, which stipulate that the shareholders of MNREC transfers 100% ownership of its shares to the Bank in the event of default on the loan. The repossessed shares were fully written-off in as of 31 December 2019.
- Key management personnel – Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors, Executive officers and their immediate relatives to be related parties.

losures (contd.)

and balances with related parties as of 31 December 2021 and 2020 and for the years then ended were as follows:

	United Banking Corporation LLC MNT'000	Globull Investment and Development PTE Ltd MNT'000	JCDecaux LLC MNT'000	MIK MNT'000	TDB Securities LLC MNT'000	TDB Leasing LLC MNT'000	NNC MNT'000	NNC Publishing LLC MNT'000	CNB Consulting LLC MNT'000	Absolute Management LLC MNT'000	MNREC MNT'000	Times Media Corporation LLC MNT'000	Valian MNT
:st	712,608	373	2,729,245	505,688,015	6,175,728	25,541,582	476,703	29,761	139	7,706	7,269	141,874	4
ıccrued													
	7,069,939	–	–	15,451,856	–	35,834,064	–	–	–	–	–	–	581
:nts	547,500	–	–	1,376,014	–	–	–	–	17,751,627	–	–	–	
	–	–	–	199,870,221	–	–	–	–	–	–	–	–	
	–	–	–	34,429,486	–	–	–	–	–	–	–	–	
ble on													
	–	–	–	2,148,019	–	–	–	–	–	–	–	–	
	–	–	–	200,678,622	–	450,982	–	–	–	–	–	–	
tter of													
	–	–	–	–	8,540	3,986,557	–	–	–	–	–	–	
	–	–	–	–	3,980	1,537	–	–	–	–	–	–	
ty	–	–	–	67,586,124	–	–	–	–	–	–	–	–	
	666,266	–	–	2,060,553	444,128	2,747,999	408,329	–	–	–	–	76,436	
	–	–	–	3,278,645	–	–	–	–	–	–	–	–	
	–	–	–	14,266,919	–	–	–	–	–	–	–	–	
	–	–	–	11,448,055	–	–	–	–	–	–	–	–	
	–	–	68,156	85,816,540	50,922	1,666,122	–	–	–	–	–	–	
	100,000	–	–	–	100,000	776,101	2,824,392	246,818	–	–	–	538,548	
	2,522	12	154	2,803,723	–	18,194	2,018	227	28	48	2,019	101	
	–	–	–	–	–	–	–	–	–	–	–	–	

losures (contd.)

rporation United Banking LLC MNT'000	Globull Investment and Development SCA LLC MNT'000	JCDecaux LLC MNT'000	MIK MNT'000	TDB Capital LLC MNT'000	MGLL MNT'000	NNC MNT'000	NNC Publishing LLC MNT'000	CNB Consulting LLC MNT'000	Absolute Management LLC MNT'000	MNREC MNT'000	Ulaanbaatar City Bank MNT'000	Valiant MNT
884,621	385	1,736,771	168,415,574	937,229	15,856,282	94,092	8,338	210	8,159	–	–	3,
2,949,768	–	–	15,789,248	13,490,080	23,961,444	5,327,898	–	7,623,863	–	–	–	
–	–	–	1,085,442	–	–	1,113,594	–	–	–	25,937	–	
–	–	–	127,666,125	–	–	–	–	–	–	–	–	
–	–	–	5,880,842	–	–	–	–	–	–	–	–	
–	–	–	558,248,580	–	1,024,508	–	–	–	–	–	–	
–	–	–	–	–	15,227,687	–	–	–	–	–	–	
–	–	–	–	3,943	4,785	–	–	–	–	–	–	
–	–	–	82,581,091	–	–	–	–	–	–	–	–	
211,710	–	–	3,886,590	1,105,730	2,294,819	426,477	–	1,120,304	–	–	857	6,
–	–	–	12,925,910	–	–	–	–	–	–	–	–	
–	–	–	–	–	–	–	–	–	–	–	5,273,551	
–	–	–	28,799,673	–	–	–	–	–	–	–	–	
3	2,379	21,008	91,300,479	76,037	346,906	1,091	–	382	–	–	–	
0,666,526	–	–	–	–	–	–	–	–	–	–	–	
–	–	–	–	–	–	–	–	–	–	–	1,489,939	
–	–	–	–	–	–	3,456,281	–	–	–	–	–	
1,814	12	1,392	2,908,469	50,033	24,234	2,513	224	532	44	–	–	5,
–	–	–	–	–	–	–	–	–	–	–	–	

36. Related party disclosures (contd.)

Terms and conditions of transactions with related parties

The above outstanding balances and transactions 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. There have been no guarantees provided or received for any related party receivables or payables.

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

37. 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 34 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

At 31 December 2021	Less than 12 months MNT’000	More than 12 months MNT’000	Total MNT’000
Assets			
Cash and balances with BoM	976,352,237	–	976,352,237
Due from other banks and financial institutions	504,417,550	–	504,417,550
Financial assets at fair value through profit or loss	7,631,221	192,239,000	199,870,221
Debt instruments at FVOCI	1,663,846,240	90,588,407	1,754,434,647
Equity instruments at FVOCI	–	57,662,947	57,662,947
Debt instruments at amortised cost	299,482,131	291,197,157	590,679,288
Investment in associate	–	506,297	506,297
Derivative financial instruments	99,678,247	1,969,251	101,647,498
Loans and advances to customers	2,297,395,568	2,291,069,837	4,588,465,405
Other assets	53,580,450	146,471,143	200,051,593
Investment property	–	79,902,629	79,902,629
Assets held for sale	3,605,964	–	3,605,964
Property and equipment	–	480,838,433	480,838,433
Right-of-use assets	–	7,902,693	7,902,693
Intangible assets	–	2,334,413	2,334,413
Total assets	5,905,989,608	3,642,682,207	9,548,671,815
Liabilities			
Due to banks and other financial institutions	13,938,713	–	13,938,713
Repurchase agreements	41,331,885	248,460,643	289,792,528
Due to customers	5,681,330,229	584,980,290	6,266,310,519
Derivative financial instruments	75,951,189	2,084,772	78,035,961
Borrowed funds	495,290,103	913,450,026	1,408,740,129
Debt securities issued	160,140,274	–	160,140,274
Other liabilities	81,615,708	207,454,257	289,069,965
Lease liabilities	–	8,999,663	8,999,663
Income tax liabilities	12,499,999	–	12,499,999
Deferred tax liabilities	–	1,035,344	1,035,344
Total liabilities	6,562,098,100	1,966,464,995	8,528,563,095
Net*	**(656,108,492)**	**1,676,217,212**	**1,020,108,720**

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

At 31 December 2020	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Assets			
Cash and balances with BoM	856,797,775	–	856,797,775
Due from other banks and financial institutions	570,001,654	–	570,001,654
Financial assets at fair value through profit or loss	2,223,925	125,442,200	127,666,125
Debt instruments at FVOCI	688,787,851	25,246,533	714,034,384
Equity instruments at FVOCI	–	34,422,196	34,422,196
Debt instruments at amortised cost	246,843,280	588,189,750	835,033,030
Investment in associate	–	40,813,475	40,813,475
Derivative financial instruments	5,880,842	83,490,350	89,371,192
Loans and advances to customers	1,736,670,864	2,288,456,384	4,025,127,248
Other assets	54,637,027	71,337,769	125,974,796
Investment property	–	148,990,218	148,990,218
Assets held for sale	4,138,693	–	4,138,693
Property and equipment	–	458,644,011	458,644,011
Right-of-use assets	–	10,132,850	10,132,850
Intangible assets	–	4,374,414	4,374,414
Total assets	**4,165,981,911**	**3,879,540,150**	**8,045,522,061**
Liabilities			
Due to banks and other financial institutions	15,623,949	87,322,195	102,946,144
Repurchase agreements	194,154,225	30,133,391	224,287,616
Due to customers	4,843,816,512	467,601,671	5,311,418,183
Derivative financial instruments	10,749,946	88,973,156	99,723,102
Borrowed funds	284,570,837	274,165,517	558,736,354
Debt securities issued	160,140,274	–	160,140,274
Other liabilities	108,692,006	535,572,700	644,264,706
Lease liabilities	5,165,993	6,218,529	11,384,522
Income tax liabilities	111,957	–	111,957
Deferred tax liabilities	–	2,155,509	2,155,509
Total liabilities	**5,623,025,699**	**1,492,142,668**	**7,115,168,367**
Net*	**(1,457,043,788)**	**2,387,397,482**	**930,353,694**

*Certain classification of financial assets and liabilities were based on contractual obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

38. Capital adequacy

The adequacy of the Bank's capital is monitored using the rules and ratios established by BoM.

Capital management

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

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

38. Capital adequacy (contd.)

Regulatory capital

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

	2021	2020
Core capital adequacy ratio	13.03%	12.65%
Risk-weighted capital ratio	13.03%	14.19%

	2021 MNT'000	2020 MNT'000
Tier I Capital		
Share capital	323,809,925	72,723,171
Share premium	–	251,086,754
Retained earnings	486,155,463	386,162,134
Adjustment (See Note 34)	(4,258,874)	(14,572,400)
Total Tier I Capital	805,706,514	695,399,659
Tier II capital		
Revaluation surplus	–	84,479,410
Total Tier II Capital	–	84,479,410
Total capital /capital base	**805,706,514**	**779,879,069**

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

%	2021 Risk Assets MNT'000	Weighted MNT'000	2020 Risk Assets MNT'000	Weighted MNT'000
0	3,360,928,946	–	2,481,183,004	–
20	532,097,176	106,419,435	577,936,375	115,587,275
50	1,248,466,378	624,233,189	924,083,487	462,041,743
80	–	–	–	–
90	–	–	719,311,204	647,380,084
100	4,300,089,528	4,300,089,528	3,245,485,061	3,245,485,061
125	–	–	109,830,369	137,287,961
150	621,453,461	932,180,192	441,659,353	662,489,030
Adjustments:				
Operational risk ratio		86,819,388		92,451,036
Foreign exchange risk ratio		133,595,360		132,773,725
Total	**10,063,035,489**	**6,183,337,092**	**8,499,488,853**	**5,495,495,915**

39. Events after reporting date

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

- On 6 January 2022, the Bank participated in monetisation transaction with wholly owned special purpose companies of Securities Financing Corporation LLC ("SFC"). The Bank sold MNT 28.7 billion of loan portfolio to SFC, for which the Bank received loan backed securities issued by SFC with interest rate of 9.5% p.a. The repo financed loans are sold with recourse of which Bank retained all the risks and rewards related to the loans sold to SFC (Note 26).
- The Bank considered the impact of changes to the Covid-19 lockdown restrictions post 31 December 2021 and concluded that the significant accounting judgements, estimates and assumptions applied in the preparation of these annual financial statements remains appropriate. Refer to Note 4 for significant accounting judgements, estimates and assumptions applied. As of our reporting date, the Covid-19 lockdowns are stopped by the Government and the Bank is operating normally.
- Subsequent to the year end, a number of countries have 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 30.0 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 4.05 billion as of the date of issuance of these financial statements.

40. Mongolian translation

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