2020

2019 Annual Report

Bank of Mongolia (Mongolbank)

THE BANK OF MONGOLIA
CENTRAL BANK OF MONGOLIA

ANNUAL REPORT 2019

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FOREWORD BY THE GOVERNOR OF THE BANK OF MONGOLIA

On behalf of the Bank of Mongolia, I extend my sincere greetings to all of you and am pleased to present the Bank of Mongolia's annual report.

The year 2019 was a year of successful resolving challenges, and sustained recovery of Mongolian economy. The Bank of Mongolia's policies and activities aimed at ensuring sustainable economic growth, financial stability, accelerating the development of the financial markets and promoting institutional developments.

Along with contributing to the economic growth, the monetary policy decisions also aimed at maintaining the medium term stability of the national currency. The inflation, measured by consumer price index, contained at 5.2 percent nationwide, 5 percent in Ulaanbaatar city which is in line with medium term targets, and real GDP growth reached 5.1 percent. International reserves reached to 4.3 billion US dollars which is covering 9 months of imports. Favorable external sector conditions, and prudent policies to stabilize macro economy contributed to building up international reserves. Rise in international reserves boosted confidence in domestic currency, positively affected credit ratings and enhanced economic immunity.

In order to implement strategy to lower interest rates the following policies and measures were undertaken such as to contain inflation at target level, to buildup international reserves, to reduce dollarization, to enhance credit registry activities and to create a legal framework for consumer protection in financial services market. As a result of maintaining economic and financial stability and positive developments, the weighted average lending rate issued by banks dropped to 16.8%, which is the lowest level for the last eight years.

In order to maintain financial stability, the policies such as setting debt service to income ratio at 70 percent for pension backed loans, at 60 percent for consumer loans other than pension backed loans, limiting maturity of consumer loans to 30 months, raising risk weights of foreign exchange loans to 150 percent for corporates with no foreign exchange revenues are adopted and implemented which resulted in increase in corporate and domestic currency lending, and decline in asset dollarization.

Within the IMF Extended Fund Facility program, the forensic audit on capital raise of banks was undertaken by Duff & Phelps company, and results came out in September 2019. Based on the findings, some parts of capital raise of banks were voided and banks' balance sheets were adjusted accordingly in October 2019. Moreover, the Bank of Mongolia submitted to the Parliament of Mongolia the medium-term program to strengthen banking system resilience. Successful restructuring of the banking sector will pave the way for smooth continuation of financial intermediation regardless of economic cycles, and will create a basic foundation for financial stability. Those efforts are important parts to strengthen the economy and achieve sustainable and inclusive economic growth in the medium term.

In October 2019, the global money laundering and terrorist financing watchdog FATF listed Mongolia as a jurisdiction with strategic deficiencies and agreed the Action plan with Mongolia for 6 action items for 4 Immediate Outcomes. Based on the Action plan, the Cooperation Council member agencies and the Bank of Mongolia have agreed and worked out action plan and implementing it.

In financial markets and institutional development area, the introduction of the Automatic Clearing House system in 2019 has brought a significant progress in the Mongolian payment system. The technology and security of the national ₮ card has been improved and paved the road to its international use. In addition, the Bank of Mongolia, in line with best international practices of Central banks, began to renovate its core accounting and enterprise resource management (ERP) system software.

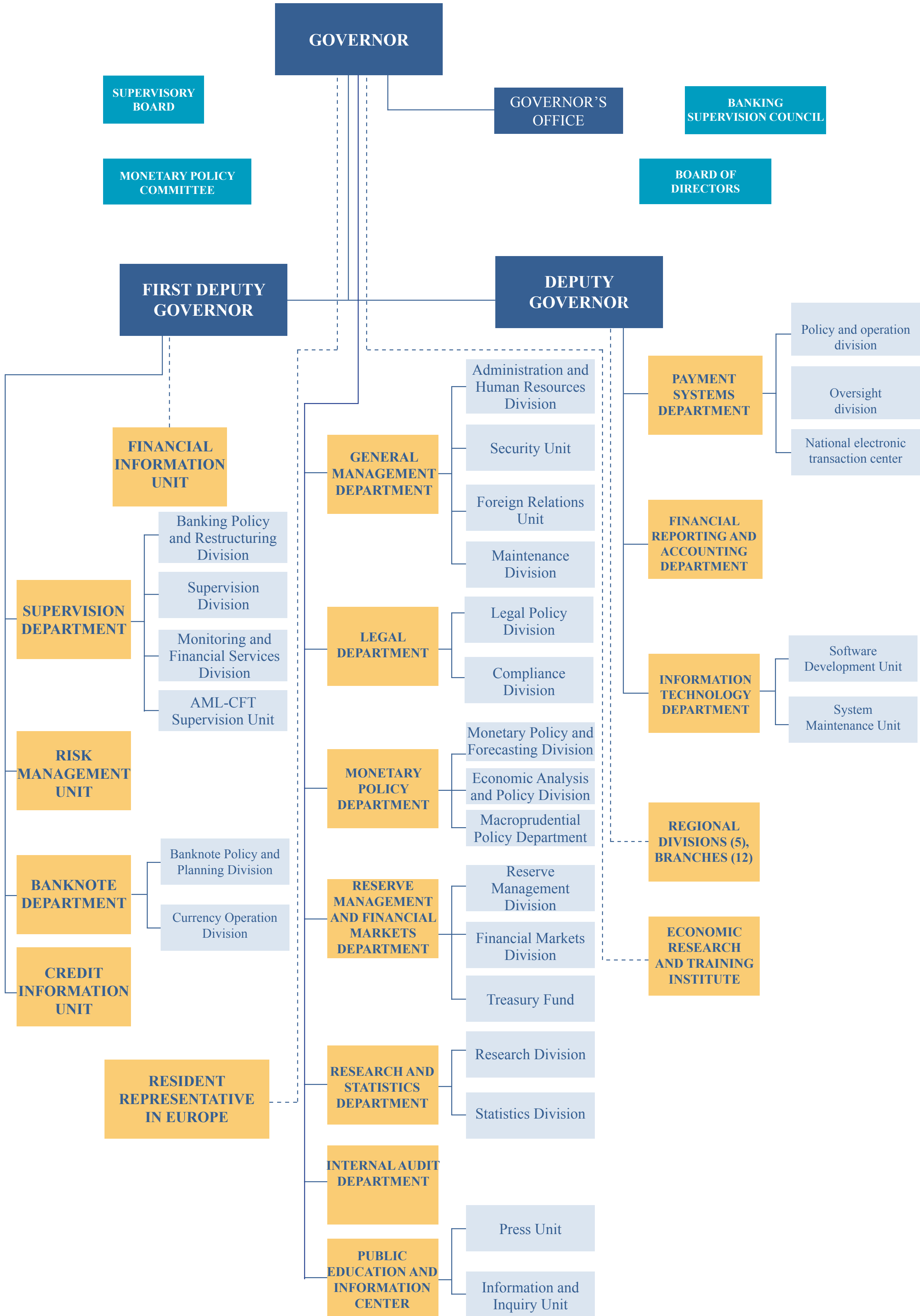
The Bank of Mongolia continued its work on expanding its international cooperation in 2019. In this regard, roundtable meetings of Mongolian-Russian and Mongolian-Chinese banks were held.

At the Global Financial Accessibility-2019 event in Johannesburg, Mongolia, out of 170 countries, was awarded the Best Partnership-2019 award for successful implementation of the Increasing public financial awareness program.

The Bank of Mongolia will retain its 2019 achievements and respond to new challenges in timely and efficient manner, and will maintain economic and financial stability in the medium and long run..

LKHAGVASUREN B. GOVERNOR OF THE BANK OF MONGOLIA

ORGANIZATIONAL CHART OF THE BANK OF MONGOLIA (2019)



CONTENT

MACROECONOMIC OVERVIEW OF MONGOLIA

1

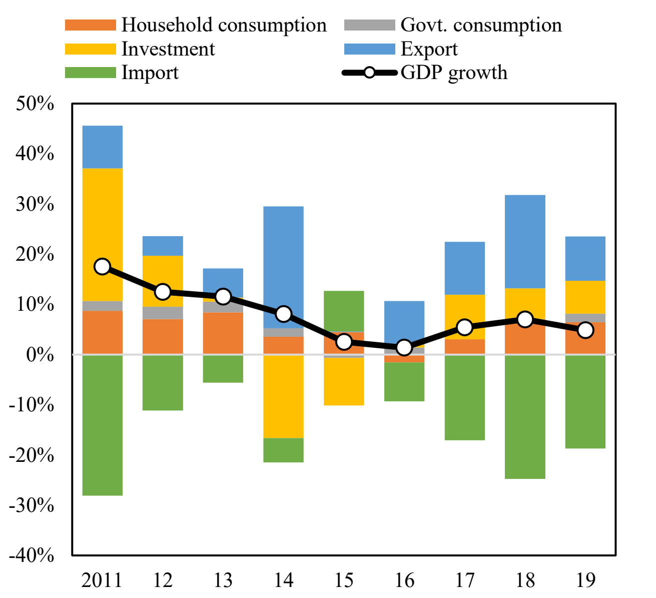
1.1 REAL SECTOR

Real sector of the economy

The Gross domestic product (GDP) has increased by 5.1[1] percent from the previous year and reached MNT 19.0 trillion in 2019, preliminary. From the demand side or expenditure approach[2], final consumption (both household and government) contributed 8.2 percentage points, gross capital formation 6.5 percentage points respectively, while the net export contributed a negative 9.9 percentage points to the economic growth. In 2019, total investments grew by 17.9 percent compared to 2018, which was contributed by increased lending to the businesses and households , an increase in tax revenues and household incomes, and the growth of the foreign direct investment[3] in the mining sector of the economy.

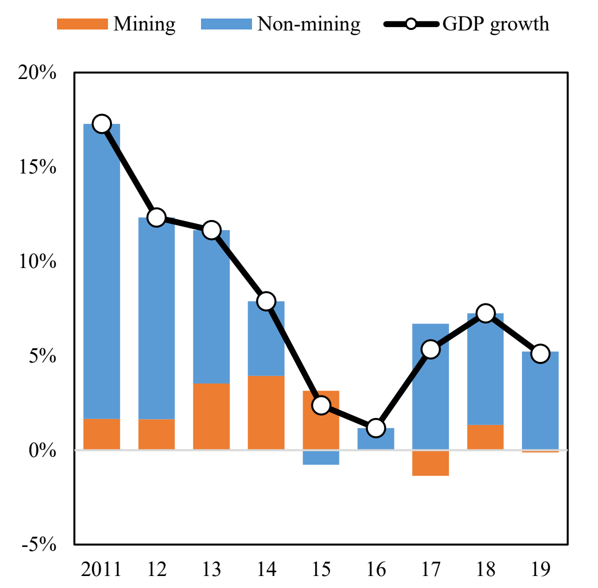
Commodity price increase, especially price of coal and iron ore, together with expansion of production by domestic companies in the mining sector, resulted in 9.9 percent y-o-y increase in the export of goods and services, which in turn contributed 8.8 (9.7 percentage points drop compare to previous year) percentage points to the economic growth, however, imports has increased by 19.1 percent y-o-y, thus net exports negatively contributed to the economic growth (Figure 1.1).

Figure 1.1. GDP growth, expenditure approach



Source: NSO of Mongolia

Figure 1.2. GDP growth, production approach



Source: NSO of Mongolia

The value added by mining, extractive sector shrinked by 0.6 percent compare to previous year, and contributed negative 0.1 percentage points to the economic growth. The cause of such drop came mostly from decline in gold and fluorspar extraction (Figure. 1.2).

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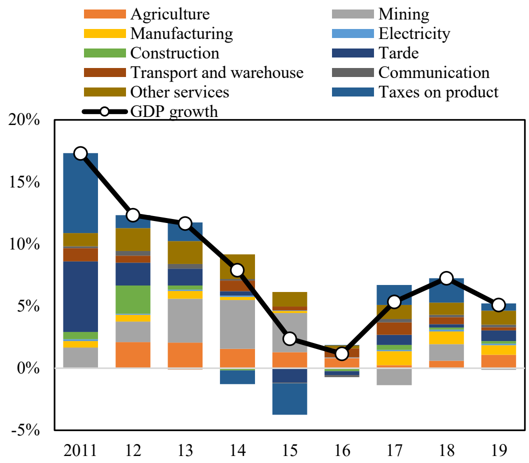
1 GDP growth measured by production approach.
2 Preliminary GDP growth measured by expenditure method is 4.9 percent in 2019.
3 In 2019, the foreign direct investment inflow grew by 6.3 percent.

Non-mining sector

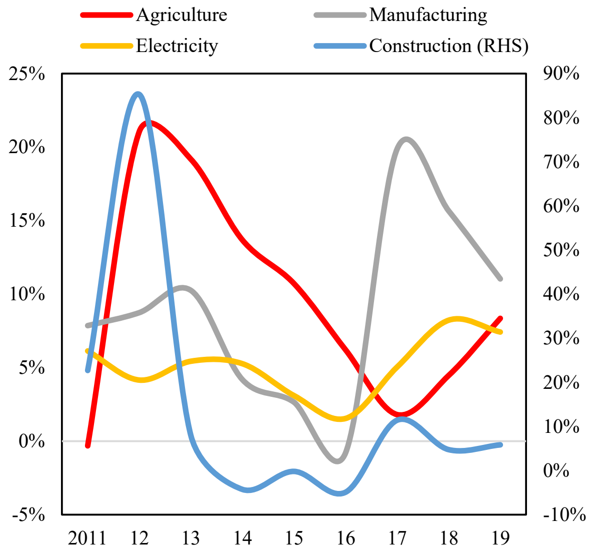
The non-mining sector contributed 5.2 percentage points to the economic growth (Figure 1.3). Agriculture, manufacturing and the trade sectors of the economy has made the most contributions to the growth of GDP. Specifically, the agriculture sector has expanded by 8.4 percent y-o-y, contributing 1.1 percentage points to the growth of GDP. The service sector grew by 5.6 percent from the previous year due to the growth of household consumption and the bank lending, which in turn contributed 1.1 percentage points to the growth of the economy (Figure 1.5).

Figure 1.3. GDP growth by production sectors



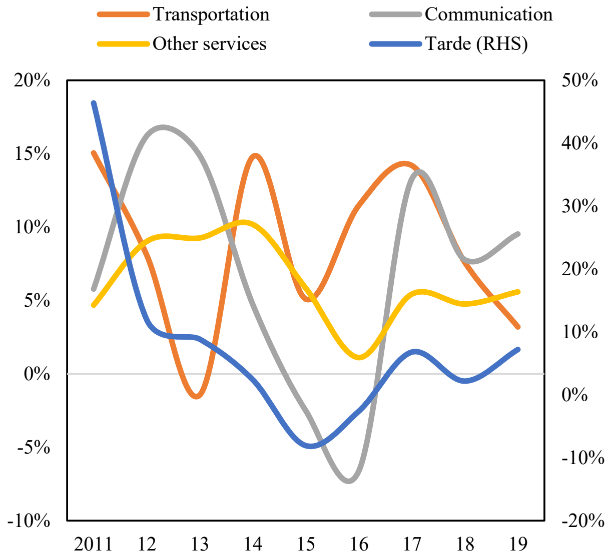
Source: NSO of Mongolia

Figure 1.4. The growth of agriculture and manufacturing sectors



Source: NSO of Mongolia

Figure 1.5. The growth of service sectors



Source: NSO of Mongolia

Inflation

As stated in the Monetary Policy Guidelines for 2019, the Bank of Mongolia's objective is to stabilize inflation around the target rate of 8 percent in 2019-2020, and 6 percent in medium run. The inflation measured by consumer price index stayed steady in the first half of 2019 around target level, however, accelerated in the 3rd quarter due to supply-side shocks, but slowed down to 5.2 percent at the end of the year. Even though core inflation remained relatively stable in line with economic activity, supply-side price fluctuations and some base effects from previous year resulted in overall volatility of inflation (Figure 1.6).

In the first half of the year, the domestic demand growth driven by credit growth, wage growth, and budget expenditure expansions, together with pass-through effects of exchange rate depreciation on imported goods prices have pushed inflation upward. However, as economic activity slowed down in the second half of the year, the pace of demand side price increases decelerated in the fourth quarter. Fluctuations of food prices, domestic tourism services prices, and administrated services prices were the main drivers of headline inflation volatility. In particular, meat prices surged in May due to supply shortage, and vegetable price seasonal dip came much later in September which pushed up inflation in the third quarter. On the other hand, price of solid fuel and gasoline, which were key components of price level increases in the previous year, remained relatively stable in 2019 and contributed to decelerate annual headline inflation by 0.6 percent.

Figure 1.6 Monthly and annual UB inflation

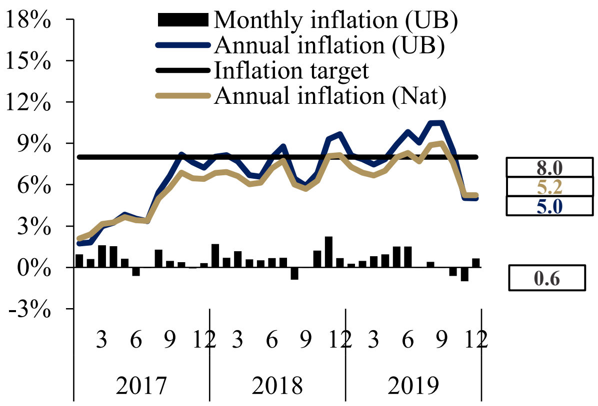


Table 1.1. UB Inflation contribution by products

Product	Basket weight	Annual growth	Contribution to annual inflation
Meat	**0.1**	**14.2%**	**1.2%**
Administrated	0.09	8.8%	0.8%
Domestic tourism	0.01	47.7%	0.4%
Gasoline	**0.06**	**-2.3%**	**-0.1%**
Solid fuel	**0.03**	**-8.1%**	**-0.4%**
Total	0.29	6.1%	1.9%

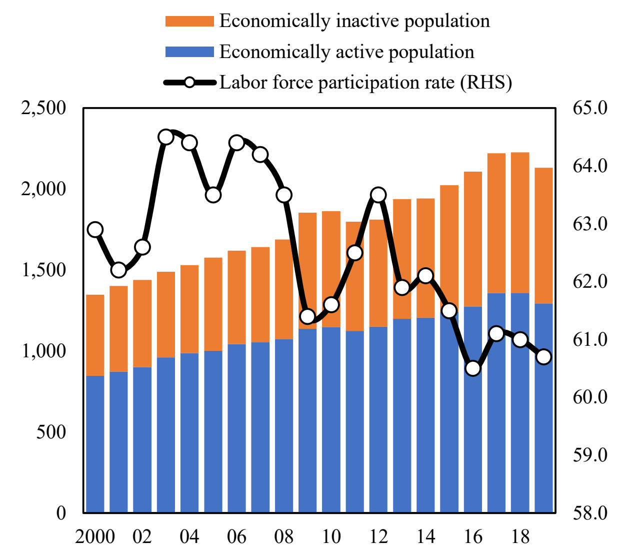
- **Meat prices** decreased from mid-June to mid-December according to seasonal patterns. However, due to stricter regulations on the production factories in Ulaanbaatar, meat supply declined by about 30 to 50 percent, and prices increased by MNT2000-2500 which accelerated inflation in May. Supply-side shocks dissipated, and prices started to decline from October returning to the seasonal pattern.
- **Solid fuel prices,** one of the major supply-side inflation drivers, have remained stable as a result of introduction of refined fuel since May. The Government regulated the supply and price of the new fuel.
- **Gasoline prices,** another major inflation contributor, had decelerating effects on the headline inflation since crude oil prices declined on the global markets.

Employment

In 2019, the working age population has shrinked by 4.2 percent from the previous year and reached 2,132.1 thousand workers. In particular, the number of economically active population decreased by 4.8 percent, reaching 1,293.6 thousand, and the inactive population decreased by 3.4 percent, reaching 836.5 thousand respectively. Since the drop in the economically inactive population is less than the drop in active population, the labor force participation rate has dropped by 0.3 percentage points and reached 60.7 percent (Figure 1.7).

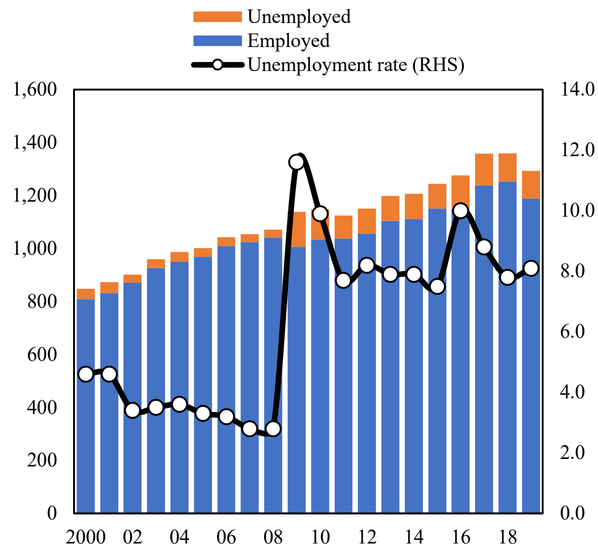
Within the economically active population, the number of employed workers have decreased by 5.2 percent compared to the previous year and reached 1,188.4 thousand workers,while the number of unemployed workers also fell by 0.4 percent y-o-y, reaching105.1 thousand workers. Both declines in the numbers of employed and unemployed population caused the unemployment rate increase by 0.3 percentage point y-o-y, and reached 8.1 percent (Figure 1.8).

Figure 1.7. Labor force participation rate



Source: NSO of Mongolia

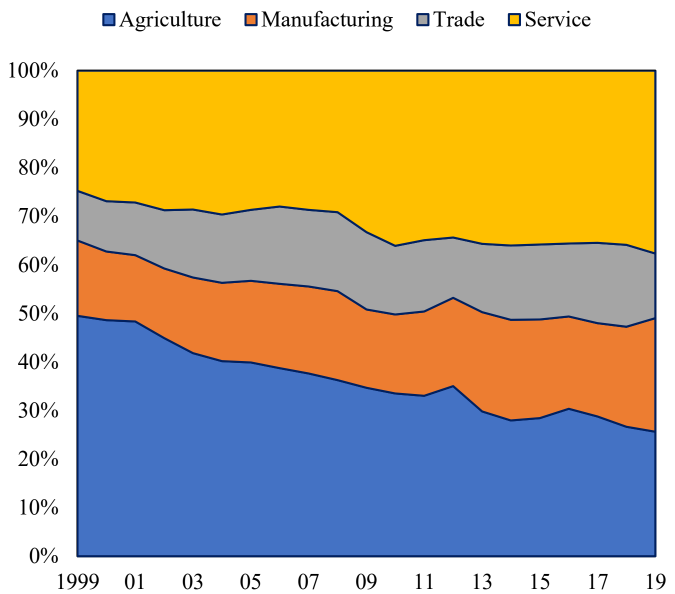
Figure 1.8. Unemployment rate



Source: NSO of Mongolia

The workers, in terms of economic activity classification, were employed: 435.3 thousands (37.7 percent of total) in service sector, 296.4 thousands (25.6 percent of total) in agriculture sector, 270.6 thousands (23.4 percent of total) in manufacturing sector, and 153.6 thousands (13.3 percent of total) in trade sector respectively in 2019 (Figure 1.9). Particularly, the number of employed persons were increased in manufacturing sector by 4.8 percent, while in agriculture, trade, and service sectors the number has dropped by 11.3 percent, 27.3 percent, and 3.1 percent y-o-y, respectively.

Figure 1.9. Employment, by production sectors



Source: NSO of Mongolia

1.2 EXTERNAL SECTOR

Balance of Payments

In 2019, current and capital account recorded a deficit of USD 2,001 million, while the financial account recorded a surplus of USD 2,678 million, and the errors and omissions are estimated USD -224 million. As a result, the overall balance of payments reached a surplus of USD 453 million, an increase of USD 595 million from the previous year.

Figure 1.10. Balance of Payments (million USD)

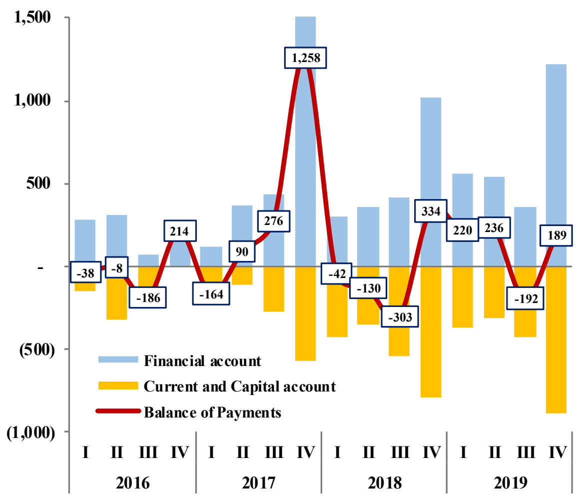
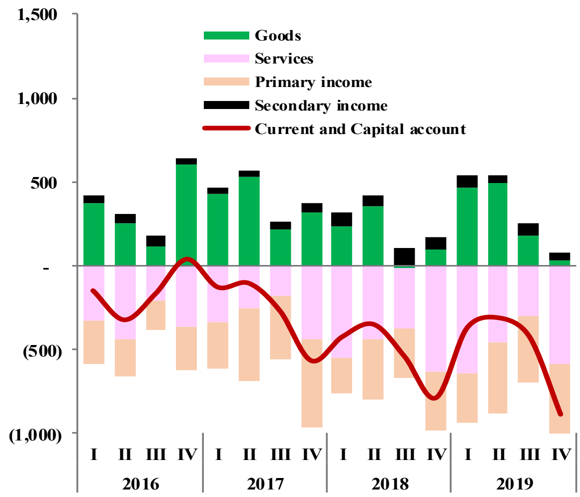


Figure 1.11 Current and Capital account composition (million USD)



Source: The Bank of Mongolia

In 2019, current and capital account deficit shrinked by 5 percent or USD 114 million from the previous year. This improvement was mainly attributed to increase of 71 percent or USD 483 million in goods account surplus.

Figure 1.12. Financial account composition (million USD)

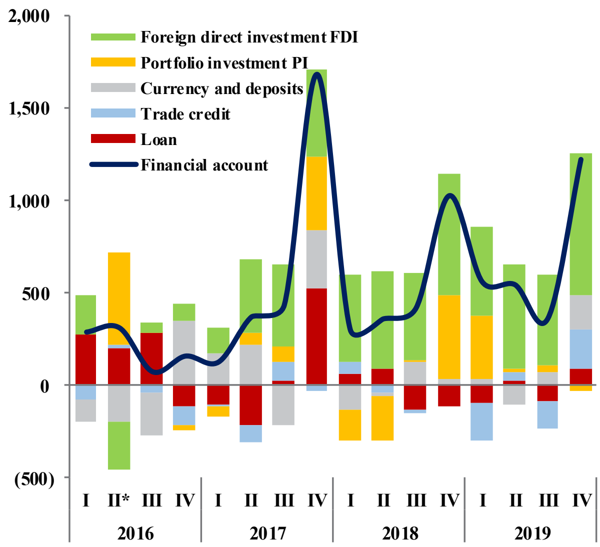
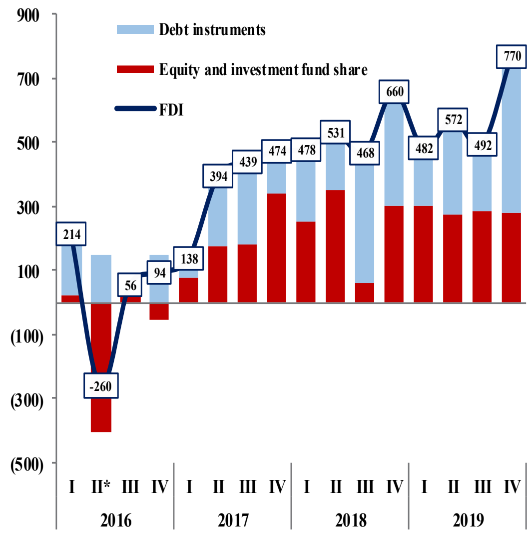


Figure 1.13 FDI composition (million USD)



* “Oyu Tolgoi” LLC issued a commercial loan of 4.3 billion USD and paid investor loan of 4.2 billion in the 2nd quarter of 2016. The above figure does not show such transactions.

Source: The Bank of Mongolia

In 2019, financial account surplus increased by 28 percent or USD 587 million from the previous year and reached USD 2,678 million. According to the interpretation of 6th edition of Balance of Payments manual, Mongolia is classified as a net debtor in the reporting year.

Trade in goods

Trade balance reached USD 1,492 million in 2019, and showed a surplus for the six years in row.

Table 1.2. Foreign trade performance (million USD)

Category	2017	2018	2019	Change (19'/18')	
				Value	%
Turnover	**10,536**	**12,887**	**13,747**	**861**	**7%**
Export	6,201	7,012	7,620	608	9%
Import	4,335	5,875	6,128	253	4%
Balance	**1,865**	**1,137**	**1,492**	**355**	**31%**

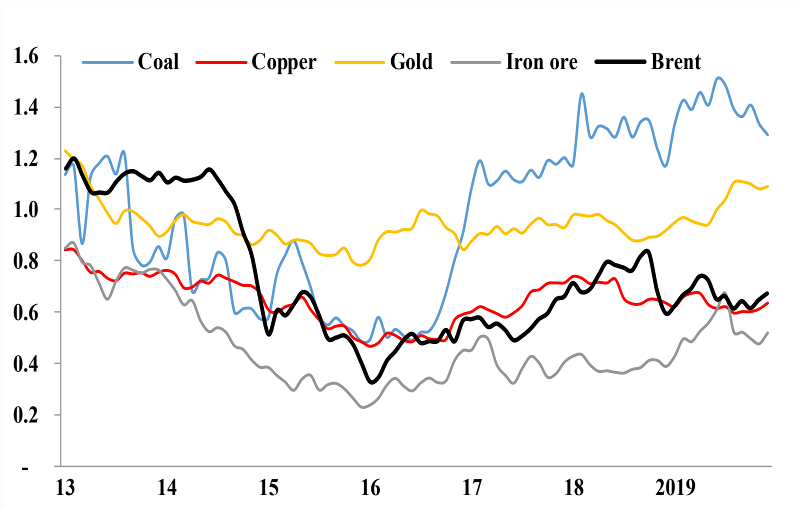
Trade balance increased by 31 percent or USD 355 million from the previous year. Imports and exports increased by 4 percent and 9 percent respectively from the previous year. Consequently, trade turnover increased by 7 percent or USD 861 million y-o-y.

Export: In 2019, exports increased 9 percent or USD 608 million from the previous year. Increase in exports was due to increase in volume and prices of the following commodities: coking coal by USD 288 million, gold by USD 274 million and iron ore by USD 234 million.

Gold price: Gold price index rose by 18 percent in 2019 due to increased risk sentiment bolstered by trade dispute between the United States and China.

Copper price: At the end of 2019, price of copper cathode in the London Metal Exchange increased from previous months and stood at the same level as in the previous year. Such fluctuations can be attributed to a decline in copper stocks at warehouses, an expectation for the trade dispute between the United States and China will not be extended and its successful "phase one" trade deal.

Figure 1.14. Commodity price index in global market (2011/1=1.0)



Source: Bloomberg

Coking coal price : In the first half of 2019, China's domestic production of coking coal showed sharp decline due to the shutdowns of unproductive mines after the their environmental impact assessment. As a result, demand of coal imports and prices surged. Whereas in the second half of the year, its import demand decreased due to increased Chinese domestic coal production of re-opened mines. It led to a drop in coal price at the border, by 14 percent from June to December, 2019.

Iron ore price: Iron ore supply collapsed due to Brumadinho dam disaster occurred in the beginning of 2019 in Brasil. In addition, China's demand for steel was above expectations. All these factors caused a persistent increase of iron ore price during the first half of 2019. Consequently, iron ore average price reached its historical peak of 120 USD in July.

Crude oil price: Crude oil price index increased by 13 percent y-o-y and by 4 percent m-o-m in the end of 2019 due to "phase one" deal of trade between the United States and China. Although, oil production cut discussions were continued among OPEC countries, the United States crude oil production increased, which resulted in 10 percent y-o-y decline of annual average price.

Table 1.3. Export of goods (million USD)

Category	2018			2019			Change	
	Volume (unit)	Value	%	Volume (unit)	Value	%	Value	%
1.Mining products		**6,200**	**88%**		**6,751**	**89%**	**551**	**9%**
1.1. Copper ores and concentrates	1,437	2,012	29%	1,404	1,796	24%	(216)	-11%
1.2. Coal	35,758	2,786	40%	36,467	3,074	40%	288	10%
1.3. Crude oil	6,190	392	6%	6,545	367	5%	(25)	-6%
1.4. Iron ores and concentrates	7,449	342	5%	8,449	576	8%	234	68%
1.5. Non-monetary gold/kg/	3,432	144	2%	9,069	418	5%	274	190%
1.6. Zinc ores and concentrates	124	198	3%	135	189	2%	(9)	-4%
1.7.Fluorspar, leucite, nephile etc.	555	190	3%	699	206	3%	16	8%
1.8. Molybdenum ores and concentrates	6	50	1%	6	49	1%	(1)	-2%
1.9. Tungsten ores and concentrates	1	9	0%	1	7	0%	(2)	-26%
1.10. Silver/tonnes/	0	1	0%	0	-	0%	(1)	-100%
1.11. Other	536	75	1%	156	69	1%	(6)	-9%
2. Animal products	**412**	**477**	**7%**	**312**	**481**	**6%**	**4**	**1%**
2.1. Live animals, meat	41	87	1%	40	84	1%	(3)	-4%
2.2. Hide, skin and leather	342	17	0%	244	13	0%	(3)	-20%
2.3.Cashing	1	9	0%	1	9	0%	(0)	-1%
2.4. Cashmere	9	333	5%	8	344	5%	11	3%
2.5. Wool, other hair	15	28	0%	17	28	0%	(0)	-2%
2.6. Other	4	3	0%	3	2	0%	(1)	-25%
3. Horticultural products	**56**	**15**	**0%**	**62**	**16**	**0%**	**0**	**3%**
4. Manifacturing goods	**234**	**319**	**5%**	**390**	**372**	**5%**	**53**	**17%**
4.1. Food	36	92	1%	23	59	1%	(33)	-36%
4.2. Cashmere goods	1	35	0%	1	46	1%	11	30%
4.3. Other apparel, footware etc	4	25	0%	4	20	0%	(5)	-20%
4.4. Mining products	61	107	2%	180	121	2%	14	13%
4.5. Electronic goods	0	3	0%	0	1	0%	(2)	-74%
4.6. Machinery, equipment and their parts	3	52	1%	4	118	2%	66	128%
4.7. Other	129	5	0%	179	7	0%	2	44%
5. Other	**1**	**1**	**0%**	**1**	**1**	**0%**	**(0)**	**-23%**
Total		**7,012**			**7,620**		**608**	**9%**

Source: Mongolian Customs and Bank of Mongolia

Import: In 2019, imports increased 4 percent or USD 253 million from the previous year. These can be explained by the following factors:

- Due to the increased foreign investment in private firms and business recovery, imports of capital goods increased 11 percent or USD 265 million. In particular, imports of machinery, mechanical equipment and parts increased by 19 percent, while imports of construction materials expanded by 1 percent.
- Imports of fuel items increased by USD 53 million, mainly due to stable oil prices in the global commodity market and growing investment in Mongolia.
- Imports for consumer goods decreased by USD 12 million. Of which, imports of household appliances and furniture, medical and pharmaceutical products dropped by 11 million USD respectively.

Table 1.4. Import of goods (million USD)

Category	2018		2019		Change	
	Value	%	Value	%	Value	%
Consumer goods	**1,643**	**28%**	**1,631**	**27%**	**(12)**	**-1%**
Non-durables	864	15%	859	14%	(5)	-1%
Food	596	10%	605	10%	*9*	*2%*
Medical and pharmaceutical products	119	2%	109	2%	*(11)*	*-9%*
Other non-durables	149	3%	145	2%	*(4)*	*-3%*
Durables	779	13%	772	13%	(7)	-1%
Clothing	74	1%	68	1%	*(6)*	*-8%*
Household electrical appliances and furniture	120	2%	109	2%	*(11)*	*-9%*
Passenger cars and parts	499	9%	508	8%	*9*	*2%*
Other durables	85	1%	86	1%	*2*	*2%*
Capital goods	**2,396**	**41%**	**2,661**	**43%**	**265**	**11%**
Machinery, equipment, supplies and vehicles	1,512	26%	1,801	29%	289	19%
Construction materials	648	11%	654	11%	5	1%
Other capital goods	236	4%	206	3%	(29)	-12%
Intermediate goods and industrial materials	**717**	**12%**	**665**	**11%**	**(52)**	**-7%**
Fuels	**1,112**	**19%**	**1,166**	**19%**	**53**	**5%**
Dissels	577	10%	669	11%	93	16%
Gasolines A92-95	264	4%	289	5%	26	10%
Gasolines A80 and other fuels	272	5%	207	3%	(65)	-24%
Other	**7**	**0%**	**5**	**0%**	**(1)**	**-16%**
Total	5,875		6,128		253	4%

Source: Mongolian General Customs Administration and Bank of Mongolia

Services

In 2019, deficit in services account widened by 1% over the last year, and reached USD 1,992 million.

Deficit in service account was mostly affected by the following factors: deficit in financial services increased by 72 percent to USD 207 million, deficit in transport services increased by 6 percent to USD 594 million whereas deficits in construction and other business services decreased by 35 percent to USD 107 million, by 8 percent to USD 546 million, respectively.

Table 1.5. Foreign trade in services (USD million)

Service account	2017	2018	2019	Change (19'/18')	
				Value	%
1. Transportation	-284	-561	-594	34	6%
2. Travel	-137	-415	-412	-3	-1%
3. Construction services	-218	-165	-107	-58	-35%
4. Insurance services	-20	-21	-23	2	9%
5.Financial services	-24	-121	-207	86	72%
6. Royalties and license services	-15	-15	-25	10	70%
7. Communication, computer and information services	-48	-64	-55	-9	-14%
8. Other business services	-435	-590	-546	-45	-8%
13. Other services	-31	-27	-23	-4	-14%
Total services	**-1212**	**-1978**	**-1992**	**13**	**1%**

Source: Bank of Mongolia

International investment position

Mongolia's net international investment position reached USD -35,831 million at the end of 2019, which is a 7 percent or USD 2,202 million increase from the previous year. Mongolia's foreign assets stood at USD 7,140 million, of which 61 percent was in foreign exchange reserves, 26 percent in other investments, 9 percent in direct investments, and remaining 4 percent in portfolio investments.

Total investments in Mongolia or foreign liabilities stood at USD 42,971 million, of which 52 percent was in foreign direct investments, 35 percent in other investments, and the remaining 13 percent in portfolio investments.

Out of total foreign direct investments in Mongolia, 54 percent or USD 12,189 million were in shareholders' investment on share capital, while 46 percent or USD 10,366 million were stock of loans from parent companies, so called "inter-company lending".

Table 1.6. Mongolia's international investment position, at the end of 2019 (USD million)

A. Foreign assets	7,140	B. Foreign liabilities	42,971
1. Direct investment abroad	665	1. Foreign direct investment in Mongolia	22,556
2. Portfolio investment	284	2. Portfolio investment	5,430
3. Financial derivatives	9	3. Financial derivatives	0
4. Other investment	1,841	4. Other investment	14,985
5. Reserve assets	4,341		
Source: The Bank of Mongolia		**C. POSITION**	**-35,831**

Annual growth rate of international investment short position was due to the following:

- Short position in foreign direct investment and other investment increased by USD 2,201 and USD 253 million respectively.
- Short position in financial derivatives decreased by USD 10 million.
- Foreign-exchange reserves increased by 23 percent or USD 800 million compared to 2018.

Table 1.7. Changes in IIP (USD million)

Indicators	2017	2018	2019	Change (19'/18')	
				Amt	*%*
Foreign direct investment	-17,525	-19,690	-21,891	*2,201*	*11%*
Portfolio investment	-4,668	-4,589	-5,146	*557*	*12%*
Financial derivatives	0	-1	9	*10*	
Other investment	-12,846	-12,891	-13,144	*253*	*2%*
Reserve assets	3,008	3,542	4,341	*800*	*23%*
Total position	**-32,031**	**-33,630**	**-35,831**	***2,202***	***7%***

Source: Bank of Mongolia

External debt

At the end of 2019, Mongolia's outstanding external debt totaled USD 30,702 million, which is an increase of 7 percent or USD 1,987 million compared to previous year. Change in external debt stock can be mainly explained by the following factors:

- Government external debt increased 9 percent or USD 622 million due to increased concessional borrowing by the government from foreign organizations and financial institutions.
- Central Bank external debt decreased by USD 46 million with refer to the exchange rate (MNT against CNY) appreciation of swap agreement between Bank of Mongolia and People's Bank of China.
- External debt in Private sector increased 12 percent or USD 1,138 million. The increase was mainly driven by "Oyu Tolgoi" LLC's intercompany lending from parent company.

Table 1.8. Mongolia's Gross External Debt (USD million)'

Indicators	2017	2018	2019	Change (19'/18')	
				Amt	*%*
Total external debt	**27,413**	**28,715**	**30,702**	*1,987*	*7%*
I. Government	7,317	7,184	7,806	*622*	*9%*
(Gov) GDP	*74%*	*59%*	*57%*	*-1.9%*	
II. Central bank	2,025	2,030	1,985	*-46*	*-2%*
III. Deposit-taking corporations (Other than Central bank)	2,309	2,230	2,138	*-92*	*-4%*
Short-term	411	764	610	*-154*	*-20%*
Long-term	1,898	1,466	1,528	*62*	*4%*
IV. Other sector	8,189	8,042	8,407	*365*	*5%*
Short-term	599	609	562	*-47*	*-8%*
Long-term	7,591	7,433	7,845	*412*	*6%*
V. Intercompany lending	7,572	9,228	10,366	*1,138*	*12%*

Source: Ministry of Finance, Bank of Mongolia

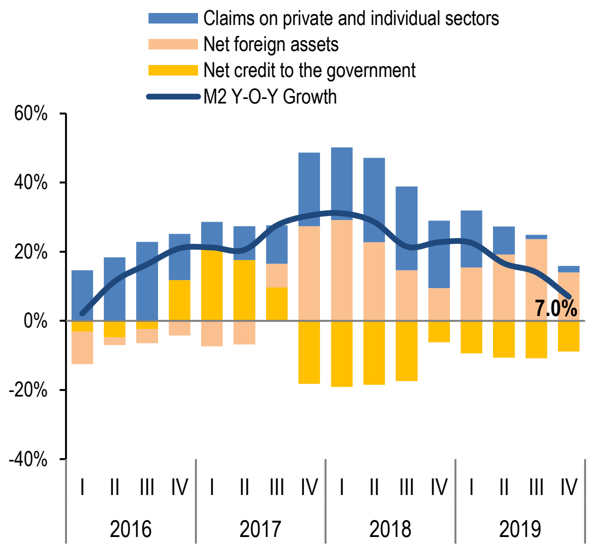
1.3 MONETARY AND FINANCIAL SECTOR

Money and Credit indicators

The growth rate of money supply has decelerated to 7.0 percent in 2019 from 22.8 percent by the end of 2018 and reached MNT 20.8 trillion. The growth of net foreign assets (14.0 percentage points contribution) were the main contributor in the M2[4] money supply growth in the reporting year. In contrast, due to the lower new loan issuance by depository corporations[5], the claims on private sector and individuals were declining, which had a negative impact on the money supply growth. Net credit to the government also decreased by 8.9 percentage point y-o-y, due to the repayments of the government bonds and an increase of the social security's deposits in the banks (Figure 1.15).

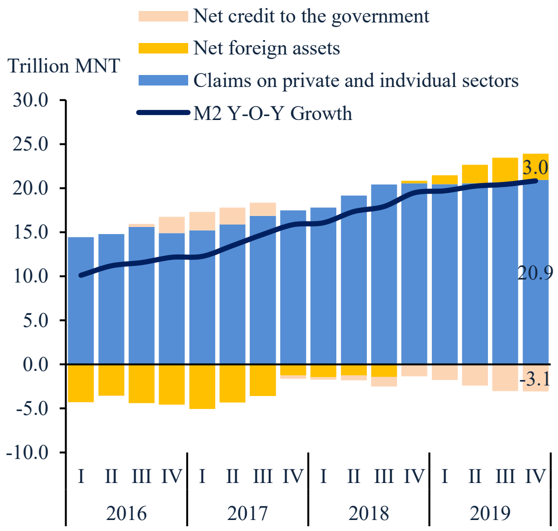
Figure 1.15. Money supply, by contribution and composition (Assets)

Growth contribution



Source: Bank of Mongolia

Money composition



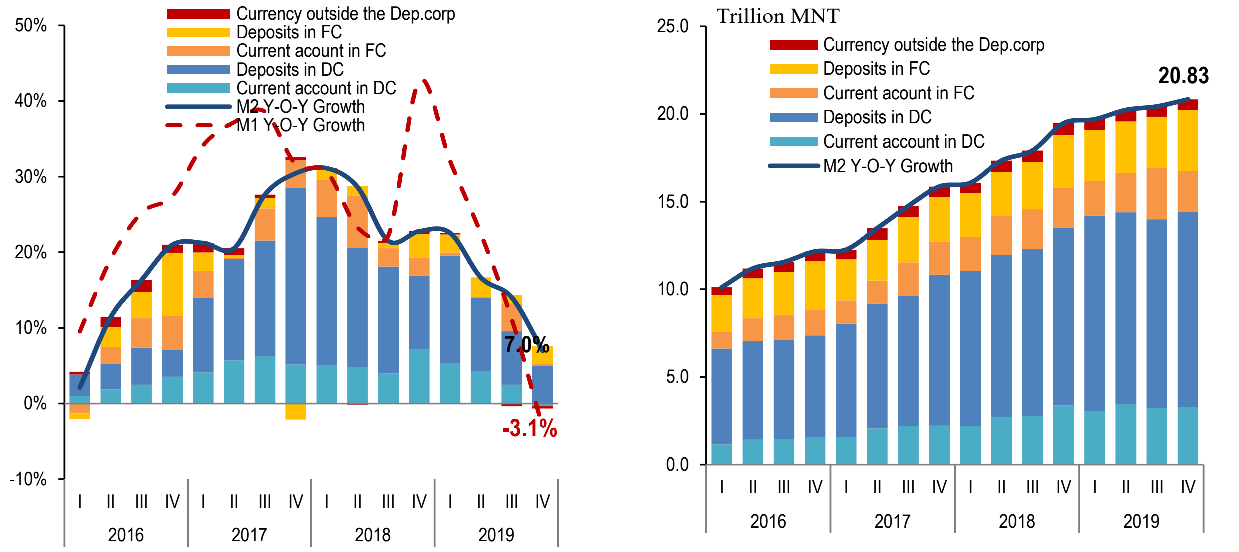
Source: Bank of Mongolia

From liabilities side, growth of other deposits[6], especially, other deposits in domestic currency has contributed 4.9 percentage points increase in the M2 money supply growth. Particularly, the deposits in domestic currency increased by MNT 963.5 billion, deposits in foreign currencies increased by MNT 464.2 billion, and current accounts in foreign currencies increased by MNT 58.2 billion. The continuous decline of the most liquid M1[7] money caused a negative impact on money supply growth. If disaggregate the M1 money components, current accounts in domestic currency decreased by MNT 70.8 billion, and the currency outside the depository corporations also decreased by MNT 56.0 billion, respectively.

[4] M2 Money=M1 + other deposits
[5] Depository corporations consists from banks and other depository corporations.
[6] Other deposits consist from deposits in domestic and foreign currencies, and currents accounts in foreign currency.
[7] M1 Money=current account in domestic currency + currency outside the depository corporation.

Figure 1.16. Money supply, by contribution and composition (Liabilities)

Growth contribution **Money Composition**

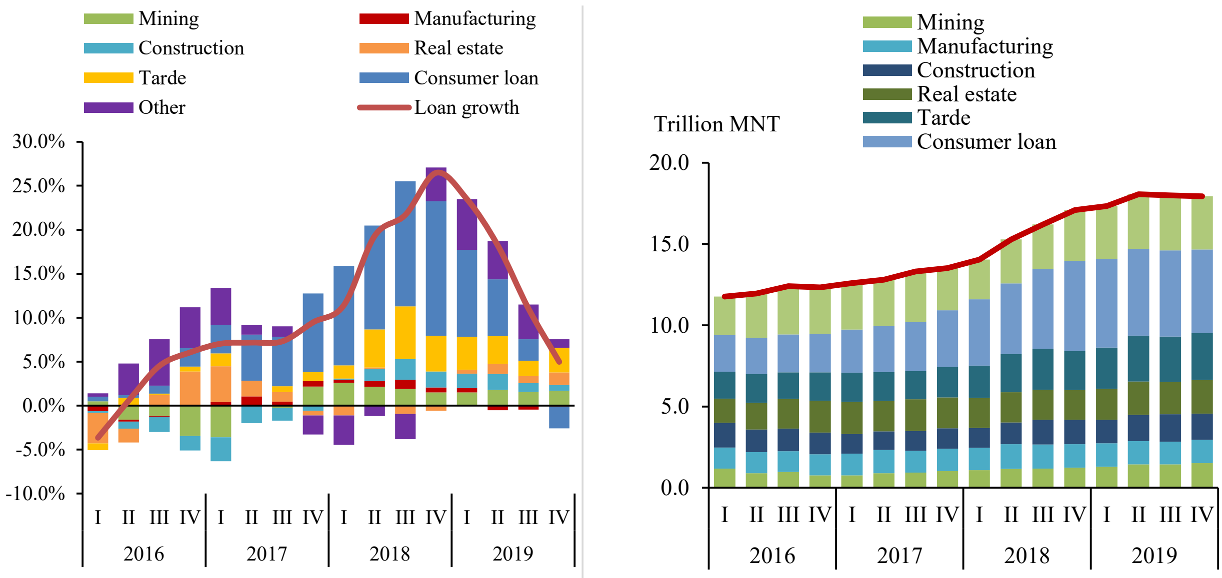


Source: Bank of Mongolia *Source: Bank of Mongolia*

In 2019, credit growth decelerated to 5.0 percent at the end of year, which is 21.5 percentage points drop from the previous year. The main contributors of credit growth were mining, construction, trade and real estate sectors of economy. However, consumer loans[8] has decreased compared to the previous year and contributed a negative 2.5 percentage points impact on credit growth.

Figure 1.17. Banks outstanding loan growth, by economic sectors

Growth contribution **Loan Composition**



Source: Bank of Mongolia *Source: Bank of Mongolia*

The share of consumer loans has declined from previous year by 3.9 percentage point and reached 28.6 percent in 2019. Particularly, the consumer loans decreased by 7.6 percent or MNT 422.5 billion compared to 2018. In contrary, the shares of mining, trade, construction, and real estate sectors in total outstanding loans have increased by

8 Consumer loan consists from loan backed by salary, and pension, and other consumer loans

Financial sector

The Mongolian financial system is dominated by 13 commercial banks. The nonbank financial sector, including 538 non-bank financial institutions, 261 savings and credit cooperatives, 18 insurance companies, 54 insurance intermediary companies, and 27 insurance loss-adjuster companies accounts only for 6.3% of the total assets of the sector.

Figure 1.18. GDP share by economic sectors

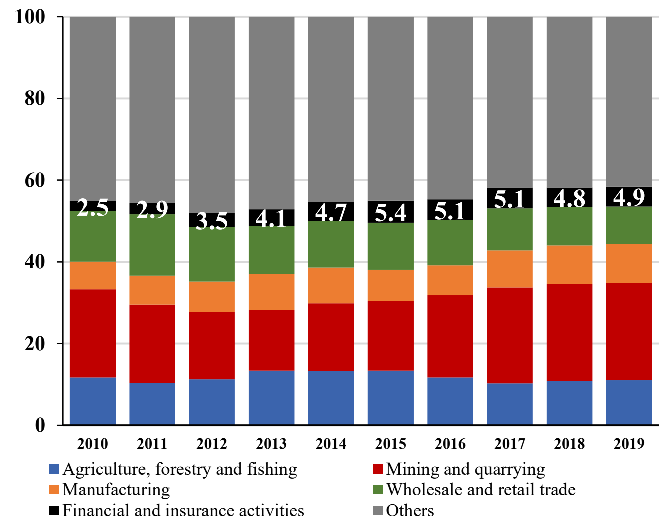
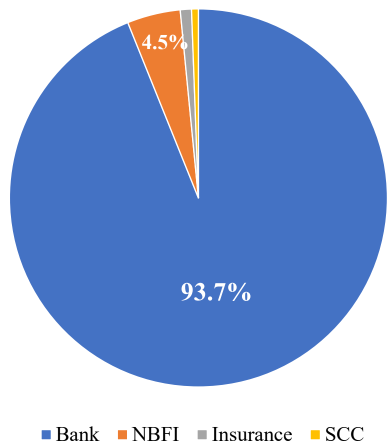


Figure 1.19. Total assets of Financial sector, by share of institutions (as of Q4 of 2019)



Source: BOM, NSO, FRC

Total assets of the non-bank financial institutions (NBFI) increased by 35.3% y-o-y and reached to MNT 1.7 trillion by the end of 2019. The loan portfolio increased by 42.7% to MNT 371.0 billion, explaining 81.7% of the total assets increases. 85.6% of the total outstanding loans were performing, 4.4% classified as past due and 8.2% as non-performing loans. The share of the non-performing loans decreased by 1.3 percentage points, compared to previous year, while the share of the past due loans increased by 0.5 percentage points.

Total assets of the savings and credit cooperatives (SCC) increased by 11.2% to MNT 222.6 billion; outstanding loans increased by 17.1% to MNT 156.7 billion. 91.4% of the SCC loans were classified as performing, 4.6% as past due, and 3.9% as non-performing.

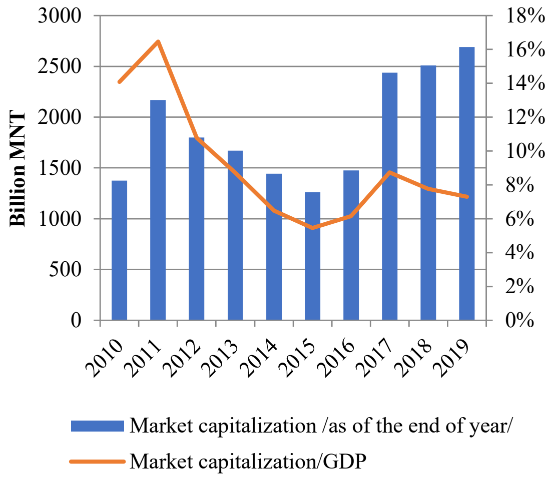
In total 18 insurance companies, including 15 non-life, 1 life, and 2 reinsurance companies, were operating in 2019. Their total assets increased by 10.0% y-o-y reaching MNT 365.8 billion by the end of 2019. Despite this growth, the deepening of insurance market (insurance premiums to GDP ratio) remains low compared to the international levels. By the end of 2019, the insurance premiums to GDP ratio was 0.54%, decreased slightly from the previous year. Total insurance premiums reached MNT 198.7 billion, of which MNT 195.3 billion were from non-life insurance, MNT 1.3 billion were from long-term and the remaining MNT 2.1 billion were from reinsurance premiums. From the total premiums 33.0% or MNT 65.5 billion were spent for insurance claims.

Securities worth of MNT 143.2 billion were traded in the 4th quarter of 2019. 93.3% of them were securities traded on the primary and secondary markets and 6.7% were sovereign bonds traded on the secondary market. Mongolia's total capitalization of stock market increased by 7.3% or MNT 182.3 billion y-o-y, and reached MNT 2.7 trillion.

Table 1.9. Non-bank financial sector as of Q4 2019, in billions of MNT

Indicators	NBFI	SCC	Insurance
Assets	2858.0	222.6	365.8
Liabilities	471.4	179.7	192.1
Equity	1267.4	42.9	103.8
Debt balances	1240.3	156.7	-
Non-performing loans	105.5	6.2	-
Profit for the reporting period	141.8	9.2	22.7
Insurance premium incomes	-	-	198.7
Payments for insurance claims	-	-	65.5

Figure 1.20. Market capitalization



Source: FRC, NSO

1.4 GENERAL GOVERNMENT BUDGET

According to preliminary figures, total budget structural revenue and grants reached MNT 11,936.6 billion, while total budget expenditure and net lending reached MNT 11,429.4 billion in 2019. As such, budget deficit amounted to MNT 628 billion, or 1.7% of nominal GDP.

Budget revenue

Total structural revenue increased by 17% year-on-year in 2019 and its performance was at 109.9% of the approved budget. In particular, 90.3% of total structural revenue is made up of tax revenue, whereas the remaining 9.7% of total structural revenue is formed by non-tax revenue. Composition of General Government revenue is shown in Table 1.10

Table 1.10 Budget revenue

billions of MNT	2018	2019	2019/2018	
	i.	ii	ii.-i.	ii./i. (%)
Total revenue	**10063**	**11937**	**1874**	**19**
Future heritage fund	621	1040	420	68
Stabilization fund	207	95	-112	-54
Structural revenue	**9235**	**10802**	**1567**	**17**
Tax revenue	**8207**	**9749**	**1542**	**19**
Taxes related to imports	2628	3042	414	16
VAT on import's goods and services	1412	1633	221	16
Customs duty	682	790	108	16
Excise tax revenue	534	619	85	16
Income tax revenue	2086	2547	461	22
Social security contributions	1621	1976	355	22
Domestic goods and services tax	1056	1153	97	9
Refund of Sales tax	-114	-237	-123	108
Other tax revenue	929	1268	339	36
Non-tax revenue	**1028**	**1053**	**25**	**2**

Budget expenditure and net lending

Total budget expenditure and net lending was 94.5% of the amount stated in the approved budget in 2019. Current expenditure performance was at 96.1% (short of MNT 328.7 billion) and capital expenditure performance was at 83.1% (short of MNT 573.7 billion), while net lending performance amounted to 248% (surplus of MNT 240.5 billion) in 2019.

In 2019, total budget expenditure increased by 24% (equal to MNT 2.2 trillion) from the previous year. Main contributors to the expenditure growth were capital expenditure, wage bill spending, expenditures on other goods and services, subsidies and transfers as well as net lending which expanded by MNT 1.2 trillion, MNT 378 billion, MNT 295.3 billion, MNT 372 billion and MNT 136.2 billion, respectively. On the other hand, interest payments fell by MNT 186 billion.

Table 1.11. Budget expenditure

billions of MNT	2018	2019	2019/2018	
	i.	ii	ii.-i.	ii./i. (%)
Total expenditure and net lending	**9223**	**11429**	**2206**	**24**
Primary expenditure	8176	10568	2392	29
Current expenditure /excluding interest payment/	6301	7347	1046	17
Capital expenditure	1608	2818	1211	75
Net lending	267	403	136	51
Interest payment	1047	861	-186	-18
Equilibrated balance	**12**	**-628**	**-640**	
% of GDP	0.0%	-1.7%		
Primary balance	1059	233	-826	
% of GDP	3.5%	0.6%		

Source: MoF

Financing sources of budget deficit

In 2019, MNT 165.1 billion and MNT 438.4 billion were spent on repayments of domestic bond and foreign loan, respectively. Additionally, the structural budget deficit reached MNT 627.8 billion, and thus the total amount of financing gap was MNT 1,231.3 billion.

Table 1.12. Financing gap and financing sources of budget deficit

billions of MNT	2018	2019	2019/2018
	i.	ii.	ii.-i.
Financing sources of budget deficit	**-12**	**628**	**640**
Current account and deposits outstanding of the government held at the Central bank	622	-1111	-1733
Government bonds	-2435	-165	2270
Newly issued bonds	0	0	0
Principal payments	-2435	-165	2270
Government loans	1160	1065	-95
New loans	1440	1503	63
Principal payments	-280	-438	-158
Transfers of Future heritage fund	509	516	8
Accumulated stock of Stabilization fund	123	322	199
Privatization of property	9	1	-8

Source: MoF

Total financing gap was funded by MNT 1,503 billion[9] of foreign loans, MNT 516 billion[10] of transfers and arrears of the Future heritage fund and MNT 322 billion of the accumulated stock of the Stabilization fund in 2019. Consequently, the total amount of MNT 2,341 billion was accumulated and MNT 1,231.3 billion was spent on financing gap, while the remaining MNT 1,110 billion was deposited in Government current account and deposits held at the Central bank.

Outstanding of domestic government bonds, which had amounted to MNT 1,565 billion by the end of 2018, was reduced to MNT 1,400 billion by the end of 2019, due to government repayment of MNT 165.1 billion domestic bonds throughout 2019.

[9] MNT 408.1 billion was attributed to EFF program loans and the remaining amount to project loans

[10] MNT 50 billion was for financing fiscal deficit, while MNT 466 billion was repayment for outstanding debt of Human development fund

MONETARY POLICY IMPLEMENTATION

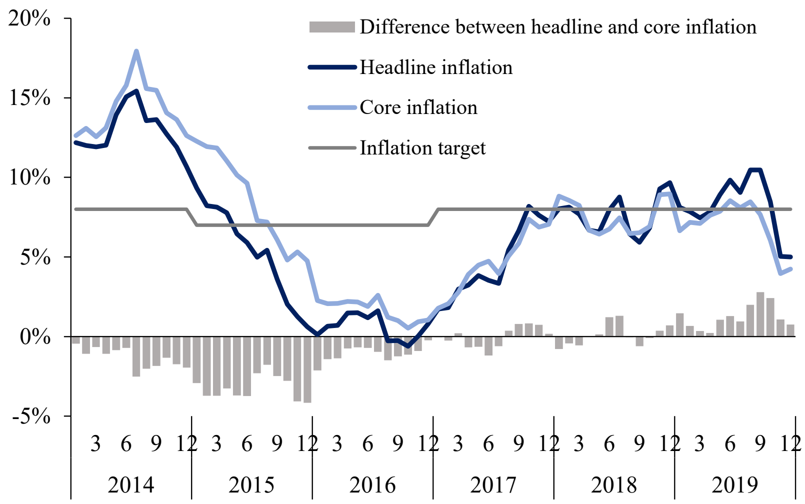
2

2.1 MONETARY POLICY OBJECTIVE, ACTIONS AND RESULTS

Using market-based monetary policy instruments, inflation, measured by consumer price index, shall be stabilized around 8 percent per annum during 2019-2020 and 6 percent in the medium term.

Inflation, measured by consumer price index, fell below the Central bank's target and reached 5.2 percent nationwide and 5.0 percent in Ulaanbaatar at the end of the year. Inflation has been decelerating in recent months following dissipation of previous year's base effect associated with prices of supply related few items, while demand-driven inflation remained relatively stable. The gap between headline and core inflation, which excludes the goods and services with high volatile prices, had increased towards the third quarter of 2019, however declined for the last two months of the year, and the core inflation reached 4.2 percent at the end of the year. (Figure 2.1)

Figure 2.1. Headline and core inflation



Although CPI inflation had been hovering around its target rate in the first half of the year, it exceeded the target in the third quarter of 2019 due to rising prices of supply related and one-off items. In particular, shortage of meat supply resulted in sudden jump in price of meat in mid-May and it remained elevated through summer, as opposed to its seasonal pattern to drop from mid-June. Consequently, change in price of meat alone explains 3 percentage points of annual headline inflation. In addition, rise in administrated prices, tuition fee of universities and domestic tourism was one of main factors of inflation to breach the target rate.

The Monetary Policy Committee meetings held four times in 2019, taking monetary and macroprudential policy decisions. For instance, in February 2019, inflation reached 6.9 percent nationwide and 7.9 percent in Ulaanbaatar. Price swings in supply side factors were mainly attributed to rising inflation, while demand driven inflation remained stable. At its meeting on 21 March 2019, the Monetary Policy Committee considering the factors affecting inflation (both demand and supply side) and their outlook, decided to keep the policy rate unchanged, and revised downward the upper limit of debt-service-to-income ratio to 60 percent for consumer loans excluding pension backed loans in the wake of upcoming wage increases. The decision serves the objective to gradually ease household debt burden that surged during the past years, reaching substantially high levels.

Inflation rose to 7.9 percent nationwide by May of 2019, driven by rising gasoline prices followed by the price of oil developments at the global market and price hikes of meat products due to supply shocks. Moreover, a rise in tuition fees of universities and administrated priced led to the surge in supply-side inflation, reaching 8.9 percent nationwide in August 2019. Inflation was expected to stabilize around the target rate in the medium term, supported by diminishing effects of one-time and supply related factors to inflation and gradually building up demand side inflationary pressure. From the other hand, the escalation in trade dispute between the US and China, and uncertainties in the external sector were likely to drag on the economy by the way of weakening external demand, falling commodity prices and shrinking foreign direct investment, therefore, the Committee decided to keep the policy rate unchanged at 11 percent at its meetings on June and September 2019.

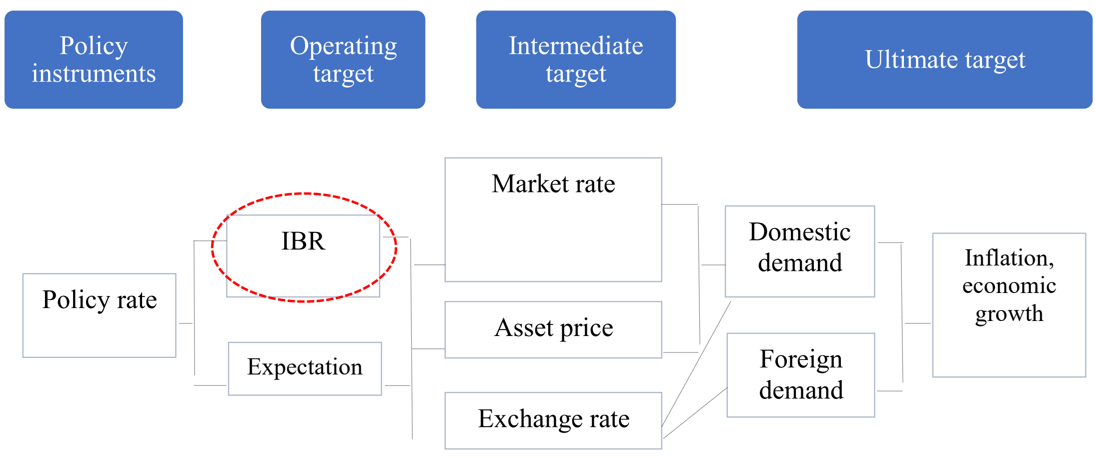
As of November 2019, inflation fell to 5.2 percent nationwide and 5.0 percent in Ulaanbaatar due to the dissipation of previous year's base effect of few supply related items, whereas demand driven inflation preserved stable. At its meeting on 20th December 2019, the Monetary Policy Committee decided to keep the policy rate unchanged at 11 percent and maintain the reserve requirement on bank's domestic currency liabilities at

10.5 percent, and increase the reserve requirement in foreign currency by 3 percentage points, setting at 15 percent. The Committee discussed the option of cutting the policy rate, coupled with declining economic and credit growth. However, considering the performance of fiscal spending and uncertainties in the external sector, the Committee decided to keep the rate unchanged, this time. Imposing a higher reserve requirement on foreign currency liabilities, with the purpose of reducing bank's liabilities dollarization and discouraging banks to attract foreign currency liabilities, is commonly implemented action within the macroprudential policy framework internationally. Thus, the purpose of the decision to increase required reserves on foreign currency liabilities was to sustain relative yield of togrog and reduce banks' liabilities dollarization.

Money market, interest rates

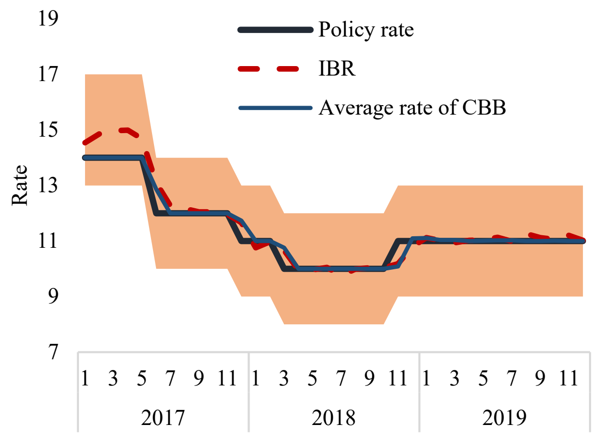
The operational target of the BoM's monetary policy is the weighted average of interbank market interest rate (IBR). The bank's decision in taking deposits and granting credits is directly depends on the interest rate of financial instruments in the interbank market, therefore, the BoM is aiming to maintain the IBR closely to the policy rate through open market operations, and other monetary policy operations tools (Figure 2.2).

Figure 2.2. Monetary policy transmission mechanism



In order to absorb structural liquidity surplus, to develop interbank market and to enhance monetary policy transmission mechanism, the BoM has been auctioning 28-day and 196-day Central bank bills /CBB/ since April and November of 2018, respectively.

Figure 2.3. IBR



In addition, the BoM has begun implementing new policy by using reserve requirements as a macro prudential policy tool since January of 2019. Consequently, the interbank transaction volume has increased by 60.3 percent while transaction maturity has increased by around 3.4 days and average maturity reached 16.1 days. The absolute deviation of IBR has reached to 0.08 basis points and thus, the BoM maintained the operating target close to the policy rate (Figure 2.3.).

MNT's reference rate against USD

At the end of 2019, the MNT's reference rate against USD has reached 2,734.33, depreciated by 3.4 percent (Figure 2.4). During the reporting period, due to intervention in the domestic foreign exchange market, the average daily exchange rate volatility was 0.01 percent which is lower by 0.014 percentage points compared to 2018. The highest daily depreciation and appreciation rates were 0.28 percent (7.42 MNT) and 0.23 percent (5.99 MNT) respectively. Moreover, 98 percent of the exchange rate variation was within the range of ±0.2 percent (Figure 2.5).

Figure 2.4. Volatility of BOM reference rate (by MNT)

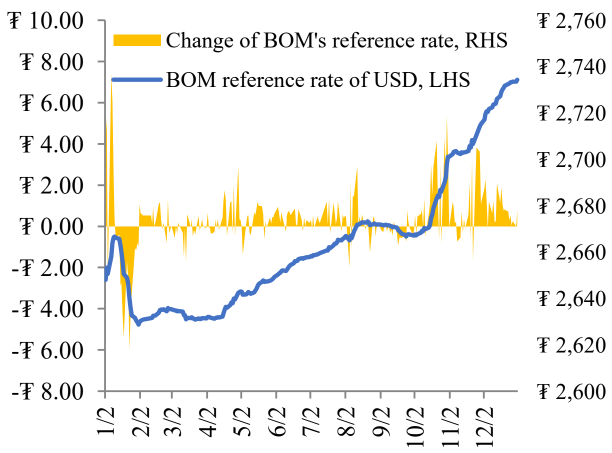
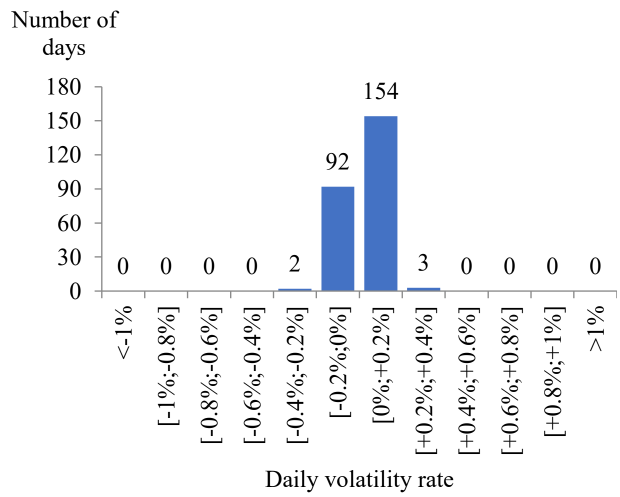


Figure 2.5. Histogram of daily changes of exchange rate of MNT against USD



Source: The Bank of Mongolia

2.2. POLICY IMPLEMENTATION TO MAINTAIN BANKING SECTOR STABILITY

Banking sector

Credit growth is decelerating. At the end of the reporting year, banking sector's outstanding loan balance reached MNT 17.9 trillion, comprising 50 percent of total assets. In 2019, credit growth in the banking sector reached 5.0 percent, which is lower by 21.5 percentage points compare to the previous year, and the lowest level in last 3 years.

Figure 2.6 Loan dynamic, growth

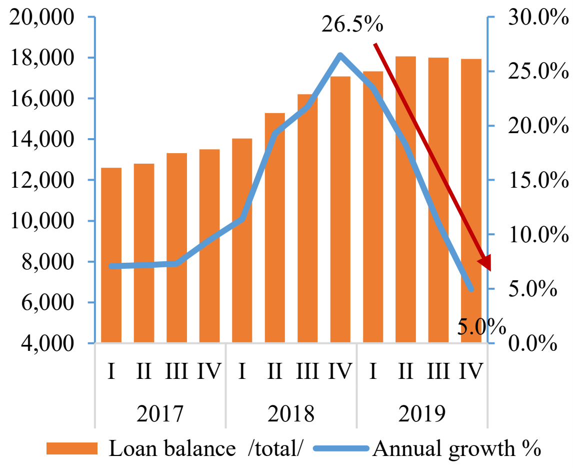
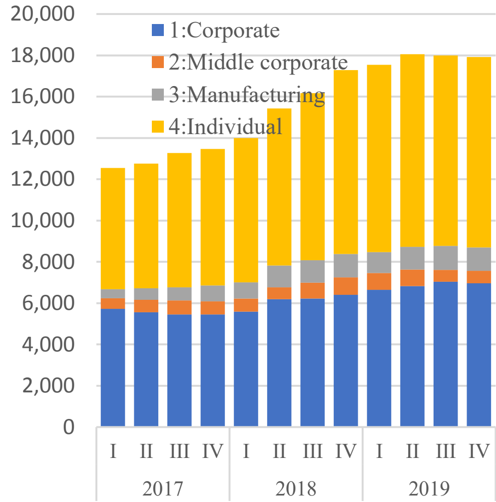


Figure 2.7 Loan structure by borrowers.



Central bank's decision to policy rate in November 2018 and to reduce consumer loan debt service to income ratio in January 2019 have caused to decelerate banking system's loan book growth rate. Among total outstanding loans, loans issued to individuals constituted 51.7 percent of total loan stock, and consumer and salary backed loans have declined by MNT 223.9 billion in reporting year. The private sector loans grew by 9.9 percent in first quarter of 2019 triggered by activity pick up in the mining and construction sectors.

Risks are accumulating in the banking sector with rising non-performing loans.

By the end of 2019, non-performing loan ratio stands at 10.1 percent and special mention loans ratio is 4.5 percent in the banking sector. Whereas in previous years, corporate loans quality has been weakening, this year individuals loans have deteriorated in quality, and it's non-performing loans reached 3.5 percent . Individuals non-performing loans represent 18.0 percent in total non-performing loans, which is higher by 3.8 percentage points from previous year. It is driven by increase in non-performing loan in salary backed loans.

Figure 2.8 Non-performing loan ratio, by borrower

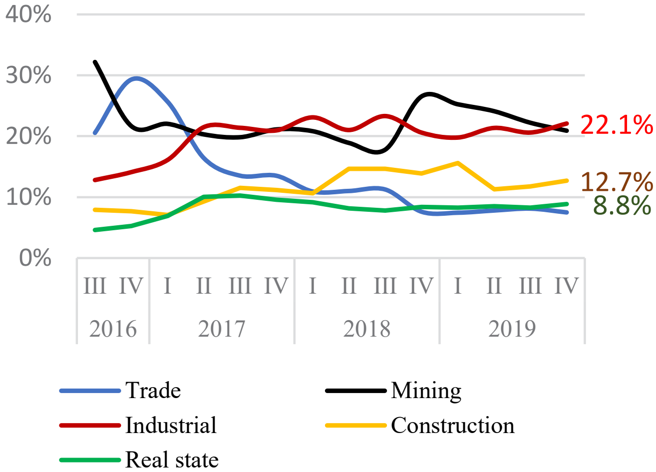
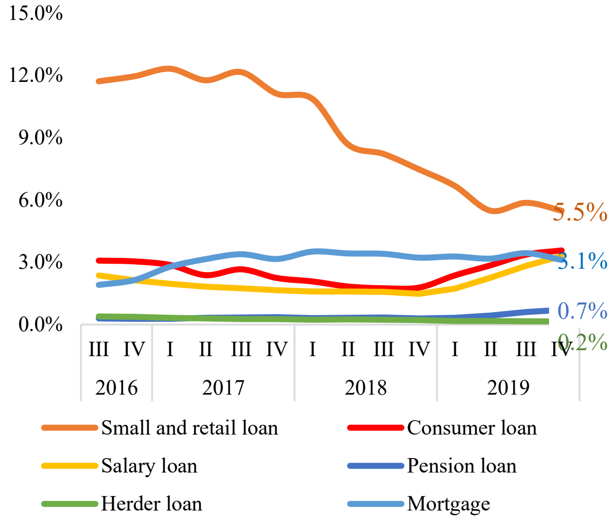


Figure 2.9 Non-performing loans ratio, by sector



Non-performing loans in mining, manufacturing and construction sectors were 22.1, 20.9 and 12.7 percent respectively whereas in trade sector it was 7.5 percent, lowest among them.

Figure 2.10 Liabilities

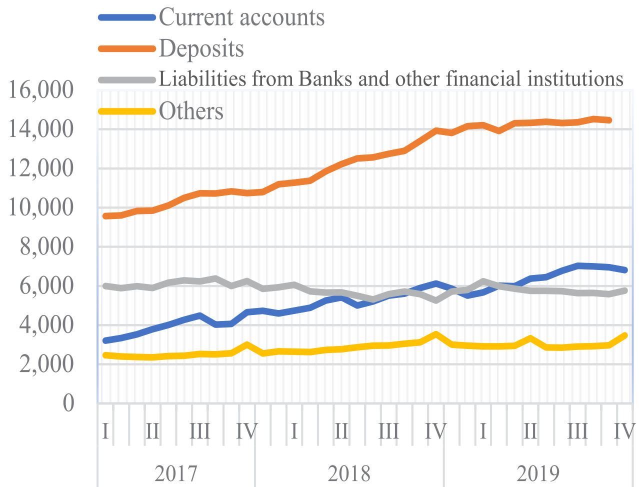
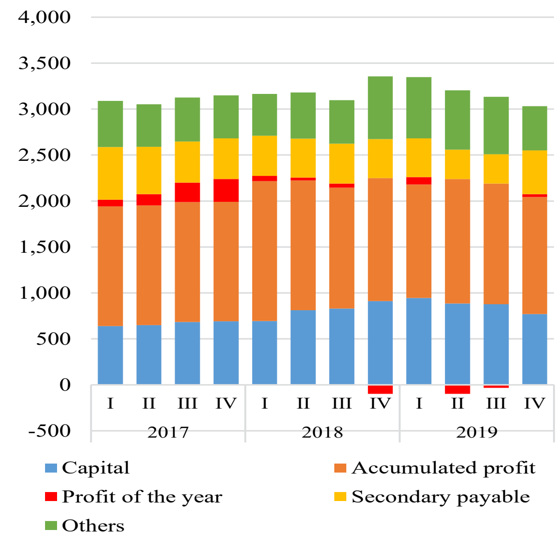


Figure 2.11 Structure of equity capital



Banking sector total liabilities by the end of the 2019 reached MNT 32.8 trillion, which is 10.2 percent higher than previous year. The growth in current accounts and deposits accounted for over 61.3 percent of the total growth whereas growth in the liabilities from banksand nonbank financial institutions has slowed down.

Growth is decelerating in current accounts and deposits.

The annual growth of deposits was 10.8 percent, which is lower by 7.1 percentage points compare to the previous year. The current accounts fell by 0.2 percent in the reporting year, which is lower by 37.6 percentage points compare to the previous year.

The mismatch between foreign currency assets and liabilities is widening. As a result of macro-prudential policy measures aimed at reducing the vulnerability in the banking sector, the share of foreign currency loans in total loans has reduced by 4.6 percentage points and decreased to 9.8 percent in the reporting period. However, the liabilities dollarization has increased to 23.8 percent, which is 0.8 percentage points higher than the last year.

Higher risks from maturity mismatche between assets and liabilities. 87.5 percent of total current accounts and deposits of the banking sector consists of short-term funding with maturity less than one year, in contrary, loans with maturity more than one year constitutes

73.7 percent in the total outstanding loans. Therefore, shorter maturity of liabilities is limiting the banks' ability to extend longer term loans, and 67.5 percent of total loans consist of short-term loans up to 3 years maturity.

The decline in share of income generating assets and investments.

Figure 2.12. Banking sector's net profit

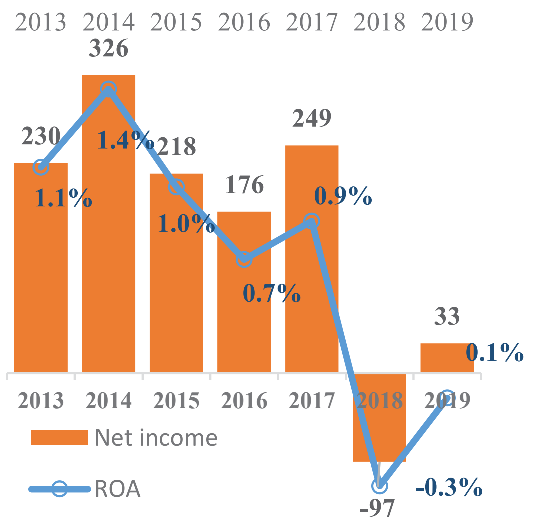
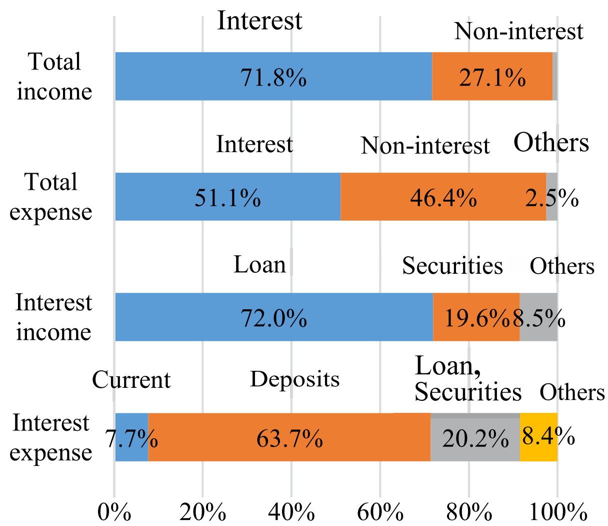


Figure 2.13 Decomposition of income and expenses in the banking sector



Slowdown in bank loan book growth and decrease in investments caused the share of income generating assets to Decline, thus posing risks to banks interest income and profitability.

In 2018, banking sector had incurred a loss due to increased loan loss provisioning of MNT 97.7 billion. In the reporting year, the banking sector's net profit reached MNT 33.0 billion and return on assets was at 0.1 percent. The total income in the banking sector reached MNT 4.9 trillion, of which 71.8 percent was from interest income and 27.1 percent was from non-interest income. 72.0 percent of interest income was from loan interest repayments, 19.6 percent was from securities interest income, and the remaining 8.5 percent was from interest income paid on current accounts and deposits. Besides, total expenditure has reached MNT 4.8 trillion in the reporting year, of which 51.1 percent was from interest expenses and 46.4 percent was from non-interest expenses.

Deterioration in asset quality and profitability is affecting the risk absorbing capacity.

Tier 1 capital adequacy ratio was at 13.1 percent and total capital adequacy ratio was at 16.6 percent, liquidity ratio was at 39.5 percent, respectively. Although capital adequacy ratios are above the minimum requirements in the system, risk absorbing capacity is diminishing due to deterioration in credit quality and poor profitability.

Capital adequacy among banks were greatly affected by various factors including higher loan loss provisioning from increased non-performing loans; Bank of Mongolia's decision to void the capital raises of six banks identified as banks having capital shortfall, as a result of Asset Quality review exercise under IMF EFF program, following results of forensic audit verifying the sources of funds in October 2019.

Bank of Mongolia liquidated the Capital Bank.

In the reporting year, the Bank of Mongolia has decided to liquidate the Capital bank, whose non- performing loans accounted for 81.2 percent of the total loan portfolio. Capital bank was unable to give cash to their depositors on demand; disrupted interbank settlement transactions; and was not able to maintain minimum reserve requirements, liquidity, capital adequacy ratios, as a result was unable to operate normally. The Capital bank's assets share in total banking system were 1.1 percent, which makes it non-systematically important bank in the system, therefore, adverse effect on banking system stability was muted.

POLICY IMPLEMENTATION TO MAINTAIN THE STABILITY IN THE BANKING SECTOR.

Improving banking supervision standards.

In 2019, the Bank of Mongolia paid special attention to strengthen the resilience, increasing regulatory capital, and fostering the sustainability of the banking sector. In particular, internationally accepted supervisory principles and regulatory tools were amended to the prudential ratios regulation by a Decree #A-138 of the Bank of Mongolia's Governor, on May 23rd, 2019, and the regulation is implemented on banks. This regulation's advantage is that it includes not only the updated definitions and concepts of Basel III standards regarding tier 1 and total regulatory capital, leverage ratio, but also introduces a capital conservation buffer and optimal prudent risk weights.

In order to mitigate credit risk, the Bank of Mongolia Governor approved the new regulation on calculating, providing, reporting and monitoring restrictions on the Bank's operations, stating the terms and conditions of the contracts and deals with the bank related parties who poses a high credit risk.

In addition, as part of the IMF's Extended Fund Facility, new draft regulation of the Bank's General Rules for Bank Lending Operations and Bank's Collateral Valuation Procedure have been developed by Bank of Mongolia to bring lending operations in line with international standards, and amended Regulation on asset classification, provisioning and its disbursement is on approval process.

The Bank of Mongolia has developed draft of the "Medium –Term Program for Strengthening the Banking Sector" and presented it to the Parliament's Economic Standing Committee, and anticipating to approve it reflecting comments from committee members.

The program aims to improve the resilience of the banking system, create a regulatory environment in line with international standards and best practices and thus contribute to the long-term sustainable and inclusive growth in the future.

The program defined the following objectives, strategies and actions.

1. Create the legal environment for diversification of the banking sector ownership structure, and strengthen the good governance of banks.
2. Continue to develop implementation of banking supervision and regulatory framework in line with international standards and best practices.
3. Successful completion of the IMF's Extended Fund Facility program.
4. To increase the effectiveness of the anti-money laundering and combating the financing of terrorism systems in order to be de-listed from FAFT gray listing, and to prepare for the next assessment.
5. Diversify banking licenses and requirements based on specific bank operation and technology, business models and other specific aspects of banks activity.

Under the Extended Fund Facility (EFF) program implemented together with the International Monetary Fund (IMF), a total of 18 regulations have been amended and revised to ensure the stability in the financial sector and to bring supervisory framework in line with international standards and best practices.

In addition, under the program, following the Asset Quality Review several banks were requested to raise new fresh capital, as a result 10 banks raised MNT 556.4 billion capital. Afterwards, as the IMF requested, independent forensic audit was conducted to check whether the raised capital complies with law and international standards. The results of forensic audit were released on September 25, 2019, and the Bank of Mongolia discussed the results with IMF team at the 2019 Autumn Annual Meeting of the World bank and IMF, consequently, the unsupported capital raises were voided and banks were requested again to raise new capital, and some preventive measures were taken in accordance with Article 48 of the Banking Law.

Banking Supervision

Within the framework of ensuring the stability of the banking sector, the Bank of Mongolia has been conducting regular on-site and off-site inspections of banks in accordance with relevant laws and regulations.

As the scope of banks operations expands, there is a need for further improving the supervision, including the development of risk-based supervision, potential risk assessment and identification tools, the evaluation of the bank's business plans and bolstering awareness and monitoring from stakeholders. .

In accordance with the requirements of the banking legislation and instruction given by the Bank of Mongolia within the framework the IMF's Extended Fund Facility program, a forensic audit was conducted to verify the sources of capital of the banks that increased their capital, and actions were taken according to the law.

Under offsite supervision framework, based on the information provided by the bank, which included the financial data's dynamics, liquidity ratios, profitability and asset quality indicators, the bank's financial solvency was assessed and relevant measures were taken against banks that did not meet the requirements of the law and regulation.

Taking the opportunity that banking supervision is moving to a risk based approach, the BOM expanded the scope of bank off-site supervision activities, identified key risk factors for banks activities in foreseen future, consequently, created a prospect for optimal and comprehensive on-site inspection.

During the on-site inspection, the bank's financial statements, solvency, management and balance sheets were inspected and inspection report materials were prepared. Violations of law and regulation were resolved in accordance with relevant laws. Results of inspections was presented to Bank of Mongolia's Supervisory committee followed by the preparation of the draft and approval of the decree of the Bank of Mongolia Governor, and corrective measures indicated in the decree were monitored and enforced.

In addition, The Bank of Mongolia reviewed 2019 business plans and quarterly strategic plans to reduce non-performing assets submitted by banks, and monitored the implementation of these plans. The main purpose of evaluating a business plan is to identify in advance the bank risks that may arise due to the nature of the bank's operations and economic conditions, and taking into account those risks, incorporate them into the bank's balance sheet and assess the bank's resilience.

The Bank of Mongolia is working with the IMF and other international organizations to maintain the stability of the banking sector and support economic growth. In addition, Bank of Mongolia conducted joint inspections with other government agencies in accordance with the law and provided forensic opinions as an expert in criminal and civil cases investigated by law enforcement agencies.

Banking supervision

Within its objective to maintain stability in the banking sector, the Central Bank has conducted regularly both on-site and off-site supervision on banks in accordance with the banking regulation.

As banks' operations extend, supervisory actions on their operations need to be upgraded as well. In this regard, the Bank of Mongolia began to implement supervisory actions that aims at risk-based instruments for identifying and assessing inherent risks in banking operation and supervisory tools aimed at improving control from bank customers.

Considering the requirements set by the banking legislation and results of the IMF Extended Fund Facility program, the Bank of Mongolia conducted the forensic audit on the raised capital financing of those banks that were found to be undercapitalized and the Bank of Mongolia took measures accordingly as states in the banking regulation.

Within the scope of off-site examination, financial condition and liquidity of banks were evaluated based on their financial statements and dynamic data on liquidity, profitability and asset quality. As a result, administrative measures were taken for banks that failed to meet requirements.

Currently, as the risk-based supervision is introduced, the scope of off-site supervision is enhanced and determining the banks' risk factors in advance enables the full scope and targeted examination could conducted in more rational basis.

Within the scope of on-site examination on banks, the Bank of Mongolia examined financial condition, management, liquidity, profitability and accountability of banks. Based on the examination supervisory reports, the Bank of Mongolia took measures to correct breaches and deficiencies uncovered during the examinations in accordance with the banking regulation.

Moreover, banks' business plan for 2019 and the implementation of non-performing asset reduction strategy were quarterly assessed. The main purpose of the business plan review is to evaluate the banks' risk tolerance by determining the contingent risks facing for banks that arises from banking features and economic condition.

Bank of Mongolia has cooperated with the IMF and other international institutions to maintain financial stability and sustain economic growth. Moreover, joint examination with government institutions were conducted in accordance with the banking regulation and supervisors of Supervision department served as experts in civil and criminal cases at the request of law enforcing agencies.

2.3. Anti-money Laundering and Combating the Financing of Terrorism supervisions

APG conducted the mutual evaluations on Mongolia's Anti-Money Laundering and Combating the Financing of Terrorism system in 2016-2017 using new methodology.

Mutual evaluation report was approved by the APG in July 2017 in Sri Lanka and made it available to the public through its website. The report assessed the compliance of Mongolia's legal environment in consistency with 40 recommendations of the FATF as follows:

- 5 out of 40 recommendations are compliant,
- 15 out of 40 recommendations are largely compliant,
- 15 out of 40 recommendations are partially compliant,
- 5 out of 40 recommendations are non-complaint.

9 out of 11 indicators of Immediate outcome for assessing the effectiveness of the legislation were assessed as Low level of effectiveness or the Immediate outcome is not achieved and needs immediate corrective action, and other 2 indicators were assessed as some extent or major improvements needed. Based on this evaluation, Mongolia was included in the "Expedited enhanced follow up" by APG.

Following, FATF concluded in October 2019 that Mongolia's Anti-money laundering and Combating the Financing of Terrorism and Proliferation financing system was strategically flawed and included in "jurisdiction with strategic deficiencies" course.

The National Council, the Government and the Bank of Mongolia have developed a short-term action plan to address the inadequacies in the legal framework, structure, cooperation and system effectiveness identified in the Mutual evaluation report.

In accordance with this plan, the Bank of Mongolia cooperated with other Government agencies to develop a draft law on AML/CFT in compliance with 40 recommendation of the FATF and draft law on combating terrorism, with a revision and amendments to other related laws were approved by the Parliament of Mongolia. In addition, the Banking sector legislation was brought in line with international standards.

In order to comply with the 40 recommendations of the FATF on the Bank's shareholders, member of the Board of Directors, management and source of funds, relevant amendments were made for the regulations, which was approved on 29 June 2017 by the Governor of the Bank of Mongolia, such as "Granting a license to establish a Bank" and "Granting a permission to change the amount and structure of the bank's paid in capital", and was approved by the Governor of the Bank of Mongolia on 22 March 2019.

The regulation on "Preventing measures of Mongolia's Anti-money laundering and Combating the Financing of Terrorism and Proliferation financing" was approved with inclusion of comments from other Government institutions and public, and implemented.

The methods of supervision on the Bank's AML/CFT and Proliferation financing activity were switched to risk

based approach and risk assessment was successfully conducted.

In addition, the amendments were made and approved by the Parliament of Mongolia to the law on the AML/CFT in context with the article 11.29 of the law on Infringement in order to discipline the fines and penalties identified during examination which is in compliance with the scope of 40 recommendations of the FATF.

The results of these activities were submitted to the APG accordingly on case by case basis. During the APG meeting held in August 2019 in Australia, 16 out 20 recommendations were improved, and Mongolia was removed from jurisdiction of "Expedited enhanced follow up" and included in the "Enhanced follow up" as achievements were taken into account.

A working group, which is meant to draft the evaluation report, established by Minister of Justice and Home Affairs and the Governor of the Bank of Mongolia on 28 May 2019 in order to improve the effectiveness of the system of Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation financing or Immediate outcomes.

The report of the working group was presented and defended in 9-13 September 2019 in Thailand to FATF joint group and it was concluded that 7 out 11 indicators of immediate outcomes have been improved. However, additional tasks shall be done on the following 4 (3, 4, 7, 11) indicators.

- Evaluate the risks of each reporting entities (FRC and others) which are responsible for informing the examination of non-financial and professional institutions, and determine the frequency and scope of examination based on these risk assessments.
- FRC shall take appropriate measures, which conceal the responsibility on prevention in accordance with Anti-Money Laundering and combating the Financing of Terrorism legislation.
- Display improved cooperation and coordination between the authorities to prevent the possibility of evading UN sanctions.
- Monitor the compliance of financial institutions and non-financial and professional service providers with combating the proliferation financing and targeted financial sanctions, and take appropriate measures, fines and penalties to prevent from reoccurrence of law breaches.

Law and regulatory reforms.

In the reporting year, Supervision department of the Bank of Mongolia cooperated with cooperation council and other Government agencies involved in AML/CFT activities under the recommendation by FATF and a joint working group drafted the amendments into legislation and guidance, and performed risk assessments along with onsite examinations and training.

Furthermore, the Bank of Mongolia participated in together with other Government institution to draft law on the proliferation financing of weapons and AML/CFT which was approved on 10 October 2019. With the adoption of this law, the amendments have been regularly made in line with some applicable laws such as law on Infringements, law on Infringement procedures, Criminal law and law on Legal status of FRC.

Related to the amendments in the laws, the Bank of Mongolia has adopted seven new regulations. For instance, "Preventive measures regulations on Anti-Money Laundering and Combating the Financing Terrorism", "Onsite supervision regulation on the banks on Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation Financing and "Regulation of off-site supervision of the banks on Anti-money Laundering and Combating the Financing of Terrorism and Proliferation financing".

The Bank of Mongolia joined the working group established on 28 December 2018 by the FRC in order to improve the legal environment of the real estate brokerage sector, to develop related regulations and guidelines. Moreover, working plan on cooperation between two institutions regarding consolidated supervision was developed and submitted to the Cooperation council.

Furthermore, Bank of Mongolia developed a questionnaire form for collecting the information and a methodology of risk assessment in collaboration with the FIU in order to assess the risks associated with AML/CFT activities for real estate brokerages and jewelry traders. The proper evaluation and report preparation were completed following IMF recommendations.

The following guidelines were prepared with a support of FIU and made it available to public via the BOM

official website.

- The guidelines to implement the Targeted Financial Sanctions.
- The guidelines to identify the Politically exposed person (PEPs) for reporting entities.

On-site examinations and actions taken

In order to comply the banks' AML/CFT supervision process with FATF 40 Recommendations, the banks' off-site and on-site examination of AML/CFT activities have been entirely revised and moved to a risk-based approach.

The Bank of Mongolia's Supervision department conducted risk assessment on all 13 banks and, based on the results of the assessment, on-site examinations on AML/CFT activities were conducted accordingly in 2019.

The on-site examinations of banks revealed several deficiencies in the areas of risk assessment techniques, customer due diligence process, its legal arrangements, identification of politically exposed people and their associates, and implementation of law on AML/CFT and relevant regulations, and a total of 3 banks have received the warning notifications by state inspectors and were imposed penalties.

In addition, the total number of 37 assignments were directed at examined banks in order to correct their identified deficiencies and improve their operations. The implementation progress has been monitored by the supervisors.

Table 2.1 On-site examinations of AML/CFT activities conducted by AML/CFT Supervision Unit

Indicators	FY 2019
Risk-based on-site examination	4
Partial on-site examination	19
Integrated on-site examination /joint with FRC/	14
Acts and statement issued by state inspectors based on their examinations	1
Number of fines and penalties imposed	2
Assignments directed at banks following the examinations	37

Source: AML/CFT Supervision unit, Supervision Department, BOM

During the on-site examinations, the instructions and guidance were given to the banks on how to sufficiently revise their internal rules and regulations regarding the AML/CFT compliance work in accordance with FATF recommendations and how to ensure the implementation process.

Furthermore, in accordance with the joint inspection guidelines stated in the FATF recommendations, the Bank of Mongolia and Financial Regulatory Commission has conducted on-site consolidated supervision in 46 financial conglomerates in January 2019 in order to identify their organizational structures and beneficial owners, and assess the implementation of AML/CFT laws and regulations.

Additionally, thematic on-site examination related to UN sanction lists were conducted regularly and based on the findings, the instructions were given accordingly to all banks.

Correspondent banking relations.

At the end of 2019, Mongolia's commercial banks have correspondent relations with 52 foreign domiciled banks, holding 372 foreign currency accounts, and performing foreign transactions and payments. As of these, 126 accounts in US dollars, 46 accounts in Euros and 65 accounts in RMB. Some foreign banks and financial institutions have opened accounts in MNT, RMB and USD at some domestic banks. The main correspondent accounts of the banks are located in China, Russia, South Korea, Canada and the European Union.

Beginning from 2013, some foreign banks have begun to terminate their correspondent relations with Mongolian commercial banks. The reasons were, firstly, to the increased risk that Mongolia would be included in the FATF's list of countries with strategic deficiency; secondly, the global banks business models changed leading to de risking and costs associated with compliance have increased; and thirdly, management's decision to terminate the relationship due to the tightening of international and domestic laws and regulations.

Figure 2.14 Active accounts /by currency/

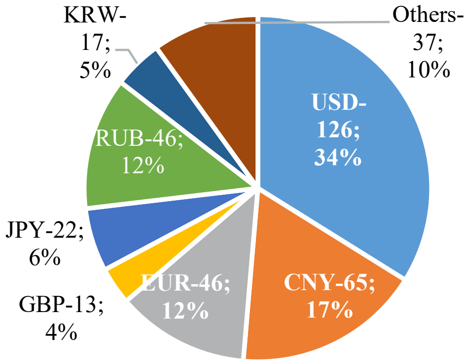
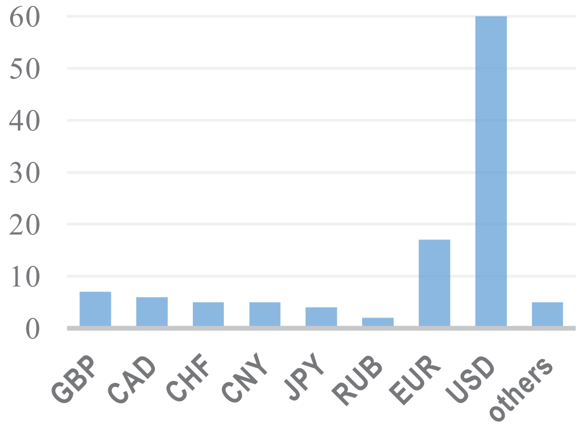


Figure 2.15 The bank's terminated accounts since 2013 (by currency)



Source: AML/CFT Supervision unit, Supervision Department, BOM

At the end of 2019, 32 foreign banks terminated their correspondent relations with our commercial banks and more than 110 accounts were closed, and majority was USD accounts. During onsite examinations, a recommendation and guidance were given to commercial banks on how to take measures to prevent future risks in Mongolia's foreign payments and transactions.

Seminars and training courses related to AML/CFT

In 2019, there were 15 training courses and lectures on AML/CFT were organized by the BOM Supervision Department together with General Intelligence Agency of Mongolia, the Banking and Finance Academy, FIU, other institutions.

Table 2.2 Seminars and workshops on AML/CFT organized by AML/CFT Supervision Unit

	Contents	Date	Organizer	Participants
1	Seminars on "USD transaction and requirements by International financial institutions"	2019.02.28	FIU, MBA-Compliance committee	200
2	Seminars on legal environment of AML/CFT and preventing activities.	2019.02.28	BOM-Public education and information center	200
3	Lectures on Correspondent relations and KYC	2019/02/29	MBA-Compliance committee	24
4	Lectures on regulation of preventive measures on AML/CFT	2019.03.20	MBA-Compliance committee	30
5	Seminars on AML/CFT	2019.03.29	Khaan bank-Internal Audit	12
6	Seminars on regulation on suspending and controlling the movements of the registered persons into the list of terrorists.	2019.06.20	National Counter Terrorism Council of Mongolia, General intelligence agency of Mongolia.	30
7	Conference on the implementation of law on the AML/CFT	2019.07	BOM-Specialized journalist unit	-
8	Seminars on regulation of preventive measures on AML/CFT	2019.09.25	BOM- Research and economic academy	30
9	Conference on how commercial banks are using the KHUR, DAN systems in accordance with FATF 40 recommendations.	2019.11.01	BOM, MBA-Compliance committee	15
10	Conference on the possibility of KYC in social environment and how to prevent it from unexpected risks.	2019.11.02	BOM, Bank's IT specialists.	15
11	International standards of AML/CFT and the tasks were taken by BOM	2019.11.04-08	BOM-Administration department	44
12	Seminars on regulation of onsite supervision of the banks on AML/CFT and proliferation.	2019.11.04-08	TT	44

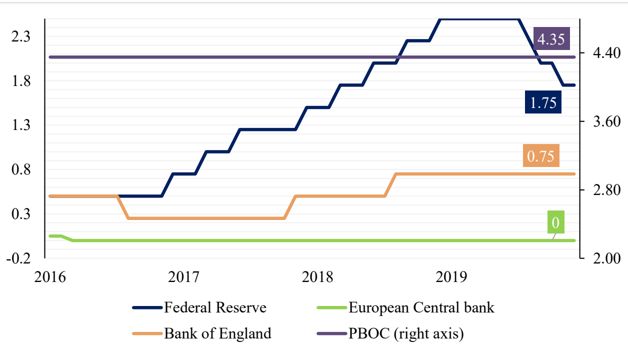
13	Lectures on regulation of preventive measures on AML/CFT	2019.11	Mongolian institute of certified public accounts	25
14	Seminars on implementation of law on the proliferation of weapons and AML/CFT	2019.12.06	National Counter Terrorism Council of Mongolia	25
15	Lectures on regulation of preventive measures on AML/CFT	2019.12.13	Mongolian institute of certified public accounts	33

Source: AML/CFT Supervision unit, Supervision Department, BOM

2.3 FOREIGN EXCHANGE RESERVE MANAGEMENT

Subject to Article 21 of the Law on the Central Bank of Mongolia, the Bank of Mongolia implements foreign exchange reserve management policy with the objective of ensuring the liquidity and security of the foreign exchange reserves. Only after fulfilling these objectives, the Bank of Mongolia seeks to optimize its returns. The structure of the foreign exchange reserve management is aimed at creating an internal control systems that is consistent with international standards, which determines the rights, responsibilities, and supervision of the all parties involved in investment process.

Figure 2.16 Central Bank rates (%)



Source: The Bank of Mongolia

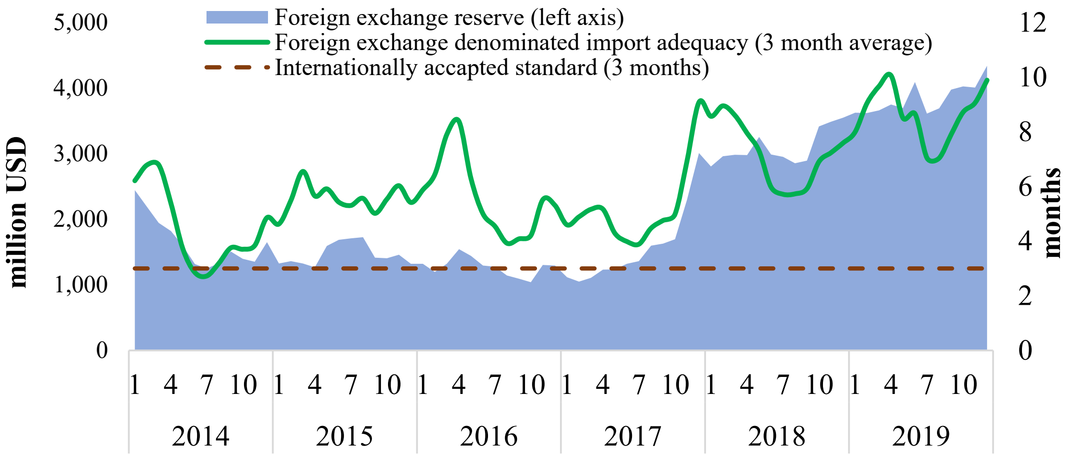
In 2019, the Bank of Mongolia carried out its foreign exchange reserve management in line with the generally accepted asset management principles and within the scope of established risk appetite framework. In terms of the general structure, the Bank of Mongolia determines its foreign currency mix and asset composition, optimal investment duration, and eligible financial instruments and counterparties.

With the decreasing global economic outlook due to trade tension, Brexit and the Iran sanctions, the investment climate in the international markets deteriorated and became uncertain. To address the challenges, global central banks pursued an accommodative monetary policy to support economic growth. The Federal Reserve Bank has lowered its policy rate consecutively three times starting from July 2019 while the rest of central banks maintained the policy rates / Figure 2.16/.

The international reserves were invested in major reserve currencies, in current and deposit accounts with central banks such as the Fed, the Bank of Japan, the Bank of England, and the Bank of France, in securities with higher investment grade ratings, and in money market instruments issued by the Bank for International Settlements and other supranationals. Meanwhile, the investment portfolio consists of 0-3-year US Treasury Note and Supranational bonds, and the portfolio's return outperformed the international benchmark.

The Bank of Mongolia purchased around 15.2 tons of gold from the domestic market in 2019, which was a 30 percent decrease (YoY). The main reason for the decrease in gold purchase was the uncertainty in the legal environment during the first quarter of 2019. Meanwhile, the gold price was increasing stable in the international market, therefore, the gold reserve was managed above the benchmark level within the approved deviation, and rose accordingly.

Figure 2.17 Foreign Exchange Reserve (in million USD) and Adequacy (monthly)



Source: The Bank of Mongolia

As of December 31, 2019, the international reserves reached USD 4,348.6 million, an increase of 22.3 percent or USD 800 million from the beginning of the year. This level satisfies the internationally accepted standard that requires reserves to be equal to 12 weeks or 3 months of import coverage /Figure 2.17/. By the end of 2019, import coverage was:

- 39.5 weeks or 9.9 months of foreign currency denominated import payment of last 3 months' average,
- 28.8 weeks or 7.2 months of foreign currency denominated import and service payment of last 3 months average.

The international reserves level does not meet the National Security concept adopted by the Parliament in 2010, which requires maintaining foreign exchange reserves at a level not less than the annual foreign currency denominated import payments.

2.4 PAYMENT SYSTEM OF MONGOLIA

In the reporting year, the Bank of Mongolia has issued operational rule on "Automatic clearing house system" and guideline on "Payment system report" while updating "Payment card regulation", "Mobile banking regulation" and "Electronic money regulation" to improve the current legal and regulatory environment.

The second annual meeting of National payment system council was organized by the Bank of Mongolia in the 3rd quarter of 2019. The general objective of the meeting is to ensure sound financial stability by strengthening the cooperation between payment system participants and stakeholders including, but not limited to, Financial regulatory commission, Communication regulatory commission, Ministry of Finance and representatives from payment service providers. During this year's meeting the main discussion points were focused on "Payment system oversight regulation" and a newly established ACH+ system and its capabilities and functionalities.

"Nemey", an event promoting the electronic banking services and technological advancements , was organized for the second consecutive year in collaboration with Mongolian Bankers association, banks, Payment system modernization project team and Mobifinance NBFI. The main purpose of the event was to share with the general public latest developments in digital payment ecosystem and possible impacts those developments bring to the way financial services are delivered. During the event, the participating stakeholders and coorganizers had a chance to promote their own new products and services to the general public while leading experts from banking industry were invited to the event to share their perspective on future technological innovation and the prospective ways that could shape the industry.

The Bank of Mongolia made a significant step in the development of cashless society by developing national brand "₮ card", a payment card which symbolizes the national currency, together with banks in 2012. Total of 2.5 million T cards were issued as of fourth quarter of 2019, holding 65.6% of the market. As part of the ADB financed "Payment system modernization project", an agreement has been signed with MasterCard, an international payment card processor, to start a cooperation on migrating magnetic stripe ₮ card to EMV chip technology. By switching to EMV/NFC technology, not only the security of the payment card will be improved but also it will be able to introduce an advanced mobile payment solution in the future.

To strengthen the confidentiality and security of the payment system, the Bank of Mongolia introduced the Public Key Infrastructure (PKI) or digital signature system for financial institutions. The system is used in all electronic payment systems including banking electronic payment system, banking and financial institution's financial services and fintech companies. The PKI system is a legally authorized digital technology that ensures the integrity and accuracy of information in the electronic environment and protects given information from being falsified or altered. The installation of the system equipment, along with software configuration has been completed, and its ready to be used on the Bank of Mongolia's internal systems, payment systems, public credit registry databases, interbank electronic forex systems for central bank bills and foreign exchange trading. In addition, in order to increase the use of the PKI system, the Bank of Mongolia is issuing system certificates to banks and financial institutions.

The National Electronic Transaction Center (NETC) of the Bank of Mongolia renewed the low-value transaction system and launched an internationally recognized Automatic Clearing House system or ACH+ system on August 15, 2019. The ACH+ system supports number of different transaction types including real time credit transaction, debit and batch transactions. The introduction of the new system brings, in addition to corporate gateway for businesses to make payments faster and safer, collateral fund mechanism to mitigate settlement risk. In other words, pre-funding of reserves eliminated the risk of fund deficiency in time of settlement procedure. Moreover, the system enables local banks and financial institutions to implement the International Bank Account Number (IBAN) standard.

Below are some features of ACH+ main and sub-component system:

- The batch system provides an opportunity for participants to send several transactions of the same type in one file or message, thus reducing system load and saving systemic expenses. Moreover, government allowances and compensations such as child money, VAT refund, salary or pension payments are efficiently transferred through the batch system.
- The introduction of Debit Transactions, a sub-component of the system, allows customers to pay invoice- based payments. By establishing contract with businesses, customers will be able to pay scheduled, periodic payments such as utility bills, mobile phone bills or loan repayment without any delay in a timely manner.
- The establishment of Corporate Gateway facilitates business entities to connect directly to the ACH+ system. Companies or organizations will able to transfer its transactions through their corporate account.
- The introduction of Central Address Module makes it possible for customers to send and receive funds using information such as phone number, e-mail address etc.

The Bank of Mongolia is developing an electronic payment scheme with relevant government agencies and authorities such as Capital City Governor's Office, the General Department of Taxation and the General Department of State Registration to digitalize the payments for public services thus minimizing cost and improving customer experience. In this framework, NETC has built an infrastructure and implemented software development on its internal system along with creating and formulating a legal and regulatory framework.

Payment System Oversight, license

In accordance with the National Payment System Law, Clearing System Operator and Settlement Agent Operation Regulation, Payment Card Regulation and Electronic Money Regulation, the Bank of Mongolia has received a total of 22 license applications this year and resolved as follows:

Extended license:

- License to issue and acquire payment cards to 8 banks.

Newly issued license:

- License to operate payment card clearing system -1 bank
- Additional license to issue and acquire payment card -1 bank
- License to issue and acquire payment card -1 bank
- License to acquire payment cards -1 non-banking entity
- License to settlement representative -1 bank
- License to operate payment card processor -1 bank and 3 non-banking entities.

The Bank of Mongolia has been collecting legislative, descriptive, and statistical documents from the payment system participants, including operators, and has been monitoring its compliance and adherence to the regulations as part of its oversight activity. Moreover, the Bank of Mongolia does on-site inspection regularly to ensure safety, reliability and efficiency of the payment systems. In 2019, the on-site inspection of the participants of the payment system was performed covering the entities and activities listed below:

- Inspection of the operation of the Central Bank Payment System Operator /Banksuljee, low-value and payment card clearing system of NETC/;
- Inspection of the operation of other payment system operators /payment card clearing system of TDB/;
- Comprehensive inspection of the participating banks in the payment system;
- Thematic inspections on respective banks associated with the payment system reports;
- Comprehensive inspection on the operations of electronic money issuer.

Supervisors reported and corrected any discrepancies identified during the inspection to the full extent of their authorities.

Assessment of the “Banksuljee”, the high value payment system, was conducted to ensure the compliance of the system with the 24 Financial Market Infrastructure Principles and 5 responsibilities set by the Bank for International Settlements. The assessment concluded that out of the 24 infrastructure principles; 13 principles were fully observed, 3 principles generally observed, 1 principle partially observed, and 7 principles were inapplicable. As per the 2019 assessment, all five responsibilities have been fulfilled. For principles that were “observed” but not assessed, recommendations were provided for the system operator to address issues and improve execution.

Moreover, the second assessment on the Central Bank Securities Settlement System of BOM was conducted in accordance with the Payment System Oversight Policy. Results of the assessment show that 12 out of 24 principles were fully observed, 2 principles were generally observed, 1 principle was partially observed, and 9 principles were not applicable.

Total number of interbank transactions made during the reporting year increased by 37.3 percent whereas the transaction amount increased by 4.5 percent compared to the previous year. Figure 2.18 illustrates the quantitative data of interbank transactions between 2016 and 2019 shown in Table 2.3.

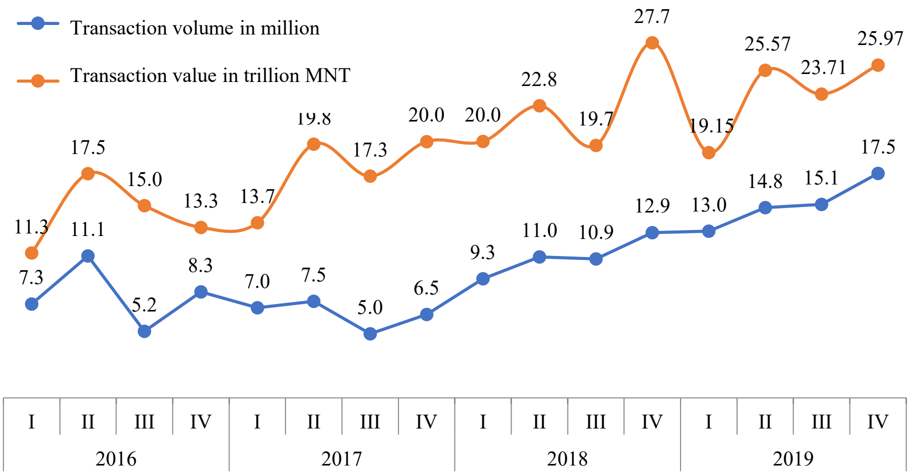
Table 2.3. Volume and value of interbank transactions, 2016-2019

(volume in thousand, value in trillion MNT)

	2016		2017		2018		2019	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**	**Volume**	**Value**
I quarter	7,323.2	11.3	7,034.1	13.7	9,295.8	20.0	13,012.3	19.1
growth (%)	*40.0*	*-5.9*	*-3.9*	*20.8*	*32.2*	*46.5*	39.9	-4.5
II quarter	11,082.4	17.5	7,533.2	19.8	10,992.3	22.8	14,846.5	25.5
growth (%)	*90.3*	*10.4*	*-32.0*	*13.2*	*45.9*	*15.2*	*35.1*	*11.8*
III quarter	5,186.8	15.0	4,999.9	17.3	10,850.6	19.7	15,103.3	23.7
growth (%)	*-11.2*	*-15.2*	*-3.6*	*14.9*	*117.0*	*13.6*	*39.2*	*20.3*
IV quarter	8,277.2	13.3	6,514.5	20.0	12,898.7	27.7	17,520.4	25.9
growth (%)	*55.8*	*-5.3*	*-21.3*	*50.4*	*98.0*	*38.5*	*35.8*	*-6.5*
Total	31,869.6	57.2	26,081.7	70.8	44,037.4	90.2	60,482.6	94.3
growth (%)	*43.5*	*-4.2*	*-18.2*	*23.7*	*68.8*	*27.3*	*37.3*	*4.5*

Source: Bank of Mongolia

Figure 2.18. Interbank transaction volume and value for 2016-2019



As can be seen from Figure 1, both the number of transactions and transaction volume have increased compared to previous years, however, the tendency that transaction amount decreases in the first and third quarters remained. Specifically, the transaction amount decreased from 27.7 trillion MNT in the fourth quarter of 2018 to 19.15 trillion MNT in the first quarter of 2019, which is a reduction of 8.5 trillion MNT, whereas, in the third quarter it decreased by 1.86 trillion MNT from the previous quarter to 23.71 trillion MNT.

Payment card

The increase of the usage of payments card every year indicates the public's interest in non-cash payment instruments for day-to-day transactions. Banks are issuing 6 different types of payment cards, including the National brand ₮ card, Visa, MasterCard, Union Pay, American Express, and JCB. As of 2019, the National brand ₮ card occupied 65.6 percent of total card usage and used extensively in the market.

Table 2.4. Usage of payment card in 2016-2019

Number of cards (million)		2016	2017	2018	2019	*Growth (%)*
Cardholder		4.0	3.8	4.3	3.7	*-13.9*
Active cardholder		1.5	1.7	1.6	1.9	*18.7*
Number of devices						
POS		21,325	27,304	42,014	59,703	*42.1*
MPOS		3,796	3,499	3,784	2,803	*-25.9*
POB		1,872	2,031	2,177	2,242	*2.9*
ATM (CRM)		1,897	2,031	2,358	2,933	*24.4*
Transaction for each device (volume in million, value in trillion)						
POS	Volume	65,7	119.2	199.6	289.2	*44.9*
	Value	1,949.9	3,388.1	5,441.6	7,390.2	*35.8*
MPOS	Volume	0.7	0.6	0.8	0.5	*-37.5*
	Value	8.8	9.5	12.4	6.6	*-46.8*
POB	Volume	0.8	1.2	3.9	1.8	*-53.8*
	Value	200.6	310.9	477.4	480.1	*0.57*
ATM (CRM)	Volume	83.9	91.5	101.3	114.8	*13.3*
	Value	10,525.3	18,826.9	24,659.8	27,237.8	*10.5*
Total	**Volume**	**151.1**	**212.5**	**305.6**	**406.4**	***32.9***
	Value	**12,684.6**	**22,535.4**	**30,591.1**	**35,115.4**	***14.8***

Source: Bank of Mongolia

As can be seen from the table, the number of cardholders declined by 13.9 percent in the reporting year, but the number of active cardholders increased by 18.7 percent. According to the table, the number of POS devices increased by 42.1 percent from the previous year, which indicates the increased availability to use payment cards for the purchases of goods and services. As for transactions, POS device had the highest increase in transaction volume and value which resulted in an increase of 44.9 and 35.8 percent respectively.

2.5 BANKING SECTOR LEGAL REFORM

The reporting year marks considerable progresses toward strengthening Central Bank autonomy, redefining legal framework for foreign exchange regulation and State treasury fund, and developing banking infrastructure and operations to affirm the positive results and attain goals of the "Legal Reform Program in the Banking Sector" initiated in 2017 by Bank of Mongolia. It also highlights legal initiative on financial consumer protection and reduction of both higher level non-performing loans and interest rates in the financial sector of Mongolia.

Within the Constitutional amendment process, the Bank of Mongolia submitted draft constitutional provision to lawmakers which would ensure autonomy of Central bank and establish its objective as price stability and its function as monetary policy implementation and banknote issuance with exclusive power reflecting international best practices. The Bank of Mongolia also organized academic conference on a concept of central bank autonomy and presented background report regarding the provision in public discussion for constitutional amendment.

The Bank of Mongolia has taken legislative measures including formulation and submission of several draft laws listed in "State Monetary Policy Guidelines for 2019", which was approved by the Parliament Resolution No. 84 of 2018, and other policy directives for economic recovery and legislative reform, "Extended Fund Facility" program, which is implemented in collaboration with the International Monetary Fund.

The Law on Foreign Exchange has been discussed in the State Great Hural to redefine the legal framework of the foreign exchange market and its participants and to regulate foreign exchange transactions.

An amendment to the Law on the Treasury fund, which was enacted in 1994, was proposed to ensure consistency between this law and the Law on Cultural Heritage Protection on legal status of treasure and its ownership, and to remove overlapping functions of Bank of Mongolia's foreign exchange management in the law, and to increase refined gold purchase. The draft law had been submitted to the parliament.

Bank of Mongolia have drawn up several draft laws to improve an infrastructure and legal framework for the banking sector's operation and to protect the rights of financial consumers. A new law on financial consumer protection was drafted to balance the information asymmetry arising among banks, financial institutions, and customers, to set standards for financial services terms and conditions, and to establish effective, efficient and prompt dispute resolution mechanism. The parliament has approved a concept of the law.

Furthermore, the revision of the Law on Deposit, Settlement and Credit Activities of Banks and Legal Entities was drafted to provide legal basis to create new products and forms in bank deposits, loans, and settlements, and to separate different account types. This initiative was created jointly with the Mongolian Banking Association and researchers. In 2019, Bank of Mongolia also prepared a draft revision of law on promissory notes. The concept of the draft law is to reduce the protracted debt obligations between business entities and organizations, enhance proper utilization of promissory notes for settlements between individuals and business entities, lower court cases and save social costs and time.

The amount of non-performing loans in the banking and financial sector had reached 10 percent of total bank loans as of the end of 2019, thus becoming major challenge, and the study shows that important factor causing the issue is current legislation and its proper implementation.

Therefore, to reduce the level of non-performing loans, it has identified that several provisions in Civil Code, the Law on Civil Procedure, the Law on Enforcement of Judgments, the Law on State Registration and other relevant laws need update enforcement of claims through judicial or non-judicial dispute settlement mechanism in fair and effective manner among contractual parties. In particular, in ensuring transparent and verified registration of assets, eliminating unjustified adjournment delays in court proceedings, imposing liability for intentional obstruction of court proceedings, a draft law was prepared and submitted to the state administrative body in charge of legal affairs.

To remove non-performing loans from banks, establish specialized institutions, and develop the secondary credit market, the draft Law on Asset Management Company was drafted in consultation with the Asian Development Bank and Korea Asset Management Corp and submitted to the parliament.

In the reporting period, several changes have been made in the Banking law which subjects bank to disclose customer information to the customs and tax administration on their implementation of certain duties specified in the law in scope of the package of tax bills approved in 2019, to charge no service fees from the collection of taxes. It also establishes additional legal basis for revoking a banking license if bank commits such as tax evasion or involved in such offences in serious manner.

2.6 NATIONAL PROGRAM FOR FINANCIAL LITERACY

The “National Mid-Term Program for Financial Literacy” was developed, with technical support from the World Bank by the Bank of Mongolia (the Central Bank); the Ministry of Finance; the Ministry of Education, Culture and Science; Financial Regulation Commission; and implemented from 2016.

This program is expected to yield the following positive externalities: to improve an individual’s financial management skills; to improve their capability to make sound financial decisions; to increase long-term savings and financial investments; to increase people’s trust in the banking system and promote the long-term and sustainable economic development of the country.

The program has been working in four priority areas since 2016:

- Financial literacy program for school children,
- Financial literacy program for young people,
- Financial literacy program for rural residents,
- Financial literacy program through mass communication/media.

The program covers the following topics:

- Basic concepts of finance,
- Budgeting and financial planning,
- Savings and deposits,
- Credit and loans,
- Investments,
- Protection against financial risks (e.g. insurance),
- Savings for retirement,
- Concepts related to social insurance and tax,
- Understanding the financial service providers and institutions.

Within the framework of this program following actions were taken in 2019:

Legal environment

Government of Mongolia

The Government approved resolution No 299’s "National program to develop Mongolia's financial market until 2025" Objective 6.2 "Every Mongolian citizen shall possess the knowledge, skills and confidence necessary to manage his/her personal and household finance in an appropriate way" is being implemented.

Monetary policy guideline

“The Monetary Policy guideline for 2020” was approved by the Parliament of Mongolia through Resolution No.98 on December 5, 2019. The resolution’s Objective 3.3 specified to enhance “National Program for Financial Literacy”.

Draft law on financial consumer protection

A draft law on financial consumer protection was submitted to the Parliament of Mongolia on December 2, 2019. The purpose of this law shall be to protect financial consumer’s rights, set requirements for financial products and services, determine the rights and obligations of the parties in charge of resolving complaints and disputes, and provide financial education to the public. The draft law includes a chapter on financial education and supervision.

"Interest Rate Reduction Strategy 2018-2023"

Objective 11. In order to improve the governance of the state and financial institutions and to protect financial consumer rights, measures to "Implement programs and activities to improve financial literacy of financial institutions, their customers and the public" are in progress.

Financial literacy for school pupils

- **Money week 2019 were successfully held**. With regards to the Global Money Week and the “Global Money Week-2019”, the Bank of Mongolia, Mongolian Bankers Association, Representative office of Sparkassenstiftung in Mongolia and banks co-organized educational sessions, reaching 46 000 school pupils and youth. Lessons on financial intermediates role in economy, banknotes were taught during students’ visit to the Treasury Fund of the Central Bank.
- **Renewal of training curriculum were approved.** On August 01 2019, the Minister of education, culture, science and sport signed an order on “Renewal of training curriculum” with No. A/491, where the “Business Studies” course was approved as an elective course for secondary school curriculum.
- **Nationwide Training Of Trainers was held.** To greet the new academic year of 2019-2020, the Ministry of education, culture, science and sport has trained 550 master trainers nationwide to provide methodological support for the implementation of the general education curriculum. One of 22 subjects that provide financial literacy is called “Business Studies” and the Bank of Mongolia has partnered with the Institute of Education and the Teacher Training Institute to build the capacity of 1,870 history and social studies teachers to support the implementation of the Financial Literacy Program.
- **Financial literacy campaign was held among children from orphanage.** In cooperation with the Banking academy and Deposit insurance corporation, the Bank of Mongolia initiated a campaign for children aged 15-18 from orphanages as part of its social responsibility to provide study tours in 5 commercial banks providing basic financial education. The campaign aimed to teach children an idea of how to save, budget and spend money wisely. Also 100 children visited the Treasury Fund of the Central Bank.
- **Comprehensive financial literacy competition held successfully for high school graduates**. The Bank of Mongolia in cooperation with Khan Bank, announced a “Comprehensive Financial Literacy Competition for high school graduates” among the participants of the #UnreadGrowthProgram and selected the best teams. Eight participating teams spent three weeks educating more than 1,600 children about financial planning and how to choose a profession for a successful career.

Financial literacy for youth

- **“Who will become a financier?” themed QAQ contest held among university students.** In the framework of “National program for Financial Literacy” and “95 Years of Banking Development” campaign a question answer question contest was held between first year university students studying the Personal Finance course. The 4th annual QAQ contest was held among 400 university students selected from National university of Mongolia, Trade and commerce university, University of Finance and Economics of Mongolia, Ulaanbaatar Erdem university, The National University of Economics. The purpose of the contest is to increase financial knowledge through interactive experiences for a long-lasting knowledge retention.

- **"BANKERS DAY" was organized** at Sukhbaatar Square on May 31, 2019 in cooperation with the Bank of Mongolia, Mongolian Banking Association, 13 commercial banks and the Deposit Insurance Corporation within the framework of the "95 Years of Banking Development" campaign. During the event, the commercial banks introduced and provided advice on its own products and services and provided financial knowledge.
- **Financial literacy trainings for law enforcent officers**. Organized 8 phased financial literacy trainings for General Police officers and Lifelong center specialists under the Ministry of education, culture, science and sport.
- **Campaigns were organized**. "95 years of banking development" and "Responsible customers, responsible banks" campaigns were successfully organized by providing financial literacy to the public from January to June and from October to December.

Financial literacy for rural residents

- **ToT reached all 21 provinces in Mongolia.** The Bank of Mongolia, Financial Regulation Committee, Lifelong education center under Ministry of education, culture, science and sport and the Microfinance development fund jointly organized ToT for Lifelong education center's teachers, vocational training center's teachers and officers from the Family, child and youth development agency in Dornogovi, Govi- Sumber, Uvurkhangai, Arkhangai, Zavkhan, Huvsgul provinces, where in total trained 729 Financial literacy trainers including other 15 provinces.
- Introductory handouts and brochures on 6 topics were reviewed and 7500 reprinted copies were handed out to rural dwellers. The handouts were improved under the following topics: How to manage your money? Concepts of household budget, saving, loan, inflation and exchange rate for your financial knowledge, and household budgeting book.

Financial literacy through mass communication/media.

A webpage for financial education, www.sankhuugiinbolovsrol.mn, is regularly updated.

- Developed and published articles on financial education in the monthly brochure "Information of the Bank of Mongolia", "Mongolian women", "Salute you" quarterly magazine from General police department.
- The "Financial Education" Facebook page is regularly updated with news and information, and it has 8500 followers.
- On Mongolian National Broadcasting Radio 38 episode on financial literacy was broadcast live and on Facebook on "Financial Tree" program.
- Ikon.mn website has opened a simple Economics section and enriched it with regular information for the economic knowledge of citizens. Cooperation with international organizations.

The Bank of Mongolia won the "Best Collaborator 2019" award by the CYFI (Child and Youth Finance International). The 8th annual Global Inclusion Awards Ceremony was held on 19 June 2019 as part of the 5th Child & Youth Finance International Global Summit on 19-20 June in Johannesburg, South Africa. In the 8th annual "Global Financial Inclusion 2019" awards ceremony, the Bank of Mongolia received the "CYFI Best

Collaborator 2019” award for the successful implementation of its “National Program for Financial Literacy”.

The Global Inclusion Awards 2019, a CYFI initiative, recognizes and honors those who achieve great success in furthering the Economic Citizenship of children and youth at the national, regional and international level. The Awardees demonstrate innovation in financial, social and livelihoods education, financial inclusion, and entrepreneurial support for children and youth.

Mongolia competed against fellow finalists from Angola, Argentina, Colombia, Morocco and Portugal for the “Best Collaborator 2019” award category on this annual summit.

Savings Day campaign successfully held. The Bank of Mongolia, Deposit Insurance Corporation of Mongolia (DICoM), Mongolian Banking Association, Representative office of Sparkassenstiftung in Mongolia, Germany’s Sparkasse Ostprignitz-Ruppin and 13 commercial banks celebrated “The world savings day” on 31st of October in Ulaanbaatar under the “Responsible customer, Responsible bank” campaign with the slogan “Let’s save andhoard ”.

During the open event, banks introduced their products and services for children and opened savings accounts on the spot. In addition, the Bank of Mongolia and the Representative office of Sparkassenstiftung in Mongolia presented manuals and brochures to children on the benefits of savings to improve the financial literacy among children, youth.

In 2019, the World Savings Day was held on November 6 in Darkhan and on November 8 in Erdenet cities.

OECD International Network on Financial Education

In 2019, under the OECD's Eurasia Competitiveness Program, the OECD worked with the Government of Mongolia to improve access to finance for small, medium and medium enterprises. It assessed the progress made over the past three years and highlighted “. the Bank of Mongolia developed and implemented financial education strategy and prepared tools to improve financial literacy and done monitoring, and also Bank of Mongolia become permanent member of OECD's international network for education ”.

The Bank of Mongolia represented Mongolia's financial education strategy at the OECD conference “Role of Financial Education and Consumer Protection in Promoting Financial Participation” in Cambodia.

Representative office of Sparkassenstiftung in Mongolia

It has been 3 years since The Bank of Mongolia, the Mongolian Bankers Association, German Savings Bank Foundation for International Cooperation “Sparkasse” and the Ostprignitz-Ruppin Sparkasse implementing “Introduction of dual vocational training for bank specialists and of the World Savings Day in Mongolia”.

During this period, a total of 155 participants and 94 teachers from 11 commercial banks successfully participated in the 7-module training. This year, a total of 73 specialists from Ulaanbaatar and Darkhan-Uul province have successfully graduated and received their certificates.

In Mongolia, a combination of theoretical and practical training for banking professionals has been held in Ulaanbaatar in recent years, but this year it has expanded to Darkhan-Uul aimag.

The World Bank

The Financial Literacy program contents simplified/updated The World Bank, Bank of Mongolia, the National Centre for Lifelong education co-organized the “Training of Teachers” (Tot) from 4-6th of April. The training is part of the National Financial Literacy program that aims to increase the financial literacy levels across the population, for a more educated financial planning and decision making.

THE BANK OF MONGOLIA'S MONEY MARKET OPERATIONS

3

3.1 OPEN MARKET OPERATIONS

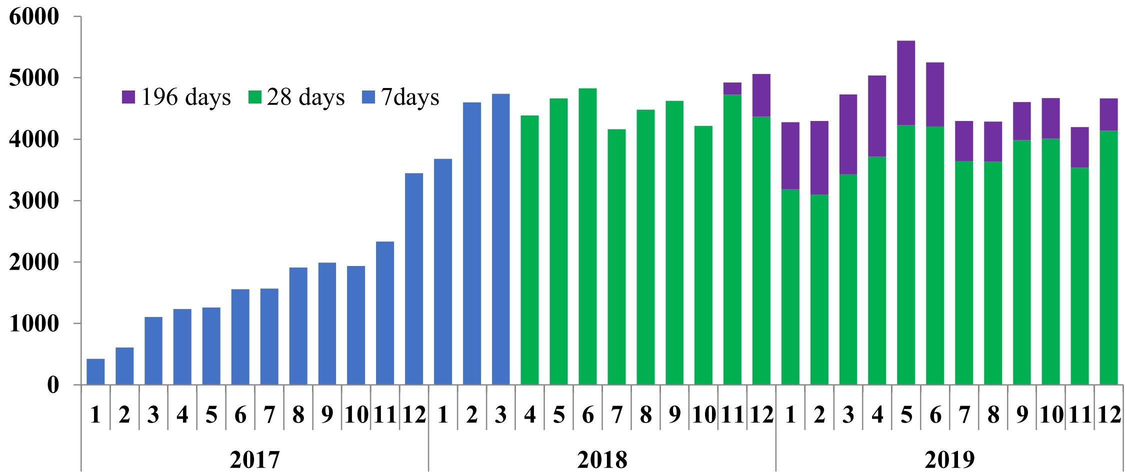
Central Bank Bills

Open Market Operations or Central Bank Bill (CBB) auction is the main tool of the Bank of Mongolia in implementing its monetary policy objectives by managing the volatility in the interbank short-term rate and the reserves of the banking system. In 2019, Bank of Mongolia sold following types of CBBs with different yields, maturities and auction types.

- In order to manage the interbank excess reserves and maintain the target policy rate, the Bank of Mongolia issued 4-week maturity CBBs every week on Mondays with policy rate and unlimited supply.
- The BoM issued 28-week CBBs with the aim of absorbing structural excess reserves, promoting trade of longer term securities in the interbank market, determining the short end of the yield curve and improving the monetary policy transmission mechanism. The 28-week CBBs are price auctioned biweekly on Wednesdays with limited supply.

The total outstanding amount of CBBs has decreased by 400.0 billion MNT to 4,663.5 billion MNT at the end of 2019 compare to the previous year. Of which, 88.7 percent were 4-week CBBs and the remaining 11.3% were CBBs with maturity of 28 weeks. The decline can be mainly attributed to i) the increase in the amount of reserve requirements by 215 billion MNT in accordance with the revision of the Regulation on Reserve requirements ii) the decrease in the net credit to the government by 835.5 billion MNT (Figure 3.1).

Figure 3.1. Total outstanding amount of CBBs (by maturity, in billion MNT)



Source: The Bank of Mongolia

Repo trading

The central bank's repo trading is an open market instrument of financing to a bank based on an agreement between the bank and the Central Bank to purchase the bills owned by the bank with the condition of selling them back at the end of an agreed term at a pre-agreed price. Repo trade provides funding to the banks for a period of up to seven days and is designed to help in times of insufficient and poor liquidity in the banking system. In the reporting year, the Bank of Mongolia did not finance banks through repo transactions.

3.2 CENTRAL BANK STANDING FACILITY

In order to implement monetary policy and to manage the interbank interest rate at an appropriate level, the Bank of Mongolia is using instruments such as overnight repo financing that injects liquidity to the banking system and overnight deposits to absorb excess reserves. In the reporting period, BOM supplied 3,987.7 billion MNT to the commercial banks through repo financing and received a total of 19,384.4 billion MNT of overnight deposits from banks.

Moreover, the Bank of Mongolia implements a single interest rate policy in order to maintain the interbank rate at a target level and to improve policy effect.

The standing facilities' interest rates determine the lowest and the highest rate of Central bank's interest rate corridor. In the reporting period, the interest rate corridor was 400 basis points or ±200 basis points from the policy rate.

Repo financing

The overnight repo standing facility is utilized to implement monetary policy, to maintain the interbank rate at a target level and to help banks satisfy their reserve requirements in the short term. Within the framework of single interest rate policy, the overnight repo interest rate is theceiling of the Central Bank's interest rate corridor.

The repo financing regulation was revised by the A-192 decree of the Governor of the Bank of Mongolia in 2018 and the duration of repo financing was extended up to 90 days. The purpose of the decision was to increase the effectiveness of policy rate on bank deposit rates by increasing the amount of repo financing to the banks and extending the duration. As a result, during the reporting period, the total amount of repo financing was increased 3.5 times and the duration of repo financing was extended by 0.21 days.

In 2019, banks received a total of MNT 3,987.7 billion MNT in total 106 transactions, in the form of overnight repo financing from the

Bank of Mongolia at the interest rate of 13 percent (policy rate + 200 basis points).

Overnight deposit

The central bank's overnight deposit is a standing facility to absorb excess reserves of banks. The transaction to place overnight deposits at the Bank of Mongolia's account shall be the last transaction of a commercial bank on a particular day, whereas the transaction to return the deposits shall be the first transaction of a commercial bank on next business day. The interest rate of the overnight deposit is the lowest rate of the Central Bank's interest rate corridor. During the reporting year, the BOM received a total of 19,384.4 billion MNT of overnight deposit financing from banks at the interest rate of 9 percent (policy rate – 200 basis points).

Others

In this part, other instruments to support monetary policy implementation such as intraday credit and collateralized loan, which are not part of standing facilities and Open Market Operations, are included.

Intraday credit

The intraday credit is a financial instrument of the Bank of Mongolia utilized when a bank’s regular banking transaction and intermediation activities are at risk. The intraday credits must be paid back on the same day with zero-interest rate. During the reporting year, the banks did not utilize the intraday credit window.

Collateralized loan

As a lender of last resort, the BoM provides collateralized loans to banks in order to support bank’s liquidity by preventing liquidity issues. In accordance with the revision of the Law on Central bank (Bank of Mongolia) and the international practice, the collateralized loan regulation has been revised by the A-174 decree of the Governor of the BoM on June 15th, 2018.

In 2019, the BoM did not grant collateralized loans to the banks and as of the end of the year, there is no outstanding amount.

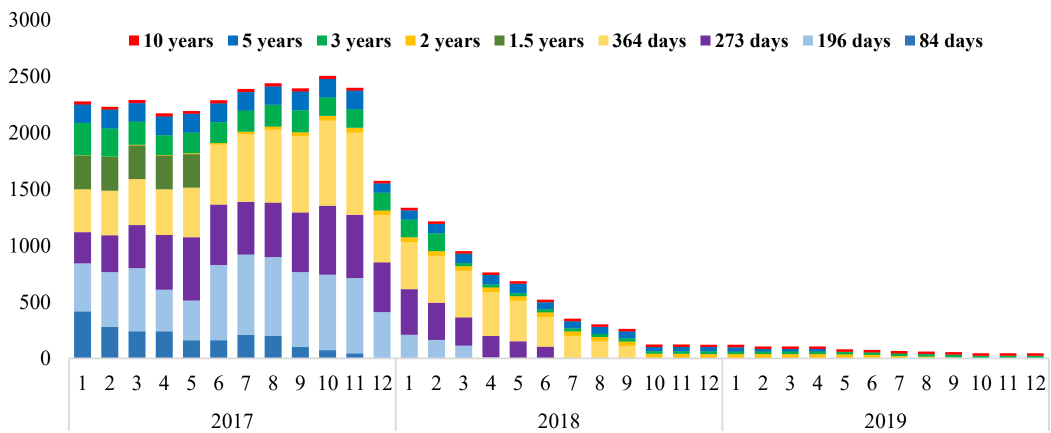
3.3 GOVERNMENT SECURITIES (GS)

Government securities are considered as a risk-free investment and the interest income earned on GS is exempted from taxation. The regular trading of GS is important in establishing a yield curve for risk-free assets in the financial market, in determining the effects of short term interest rate changes on long term interest rates and in promoting financial markets development through activating financial markets.

As a result of the amendments in Banking Law, commercial banks have been prohibited from conducting customer’s investment activities. Thus, GS are traded through the Bank of Mongolia and only commercial banks are allowed to participate. However, individuals and business entities are able to participate in the GS trading in the Mongolian Stock Exchange (MSE) through brokerage and dealing companies.

The Ministry of Finance (MOF) decided not to offer new issuance of GS at the primary market in 2019. Therefore, the stock of GS traded through the Bank of Mongolia decreased by 76.9 billion MNT and reached 45.3 billion MNT at the end of the year (Figure 3.2.).

Figure 3.2. Outstanding GS amount traded through the BOM (billion MNT)



Source: The Bank of Mongolia

Table 3.1. Secondary market activities of GS

Trade in the secondary market of GS /by bundle/			
Date	i/ Short-term	ii/ Long-term	/i+ii/ Total
January of 2019	-	18,000.00	18,000.00
February of 2019	-	-	-
March of 2019	-	-	-
April of 2019	-	-	-
May of 2019	-	-	-
June of 2019	-	-	-
July of 2019	-	-	-
August of 2019	-	-	-
September of 2019	-	-	-
October of 2019	-	-	-
November of 2019	-	-	-
December of 2019	-	-	-
TOTAL	**0.00**	**18,000.00**	**18,000.00**

However, according to "Regulation on trading of Government Securities in the primary and secondary market" which is a joint memorandum of the Governor of the BOM, Chairman of the Financial Regulatory Commission (FRC) and the Minister of Finance and its amendments, with a total face value of MNT 18.0 billion was traded on a secondary GS market, in 2019.

Source: The Bank of Mongolia

Because there has been no new issuance of GS since November of 2017, existed short-term securities matured. Therefore, banks trade solely long-term securities. Due to the absence of GS, the demand for CBBs in the market surged. Particularly, bank's holdings of CBBs was 4,424.3 billion MNT, whereas of GS was1,479.7 billion MNT in 31th of December, 2019.

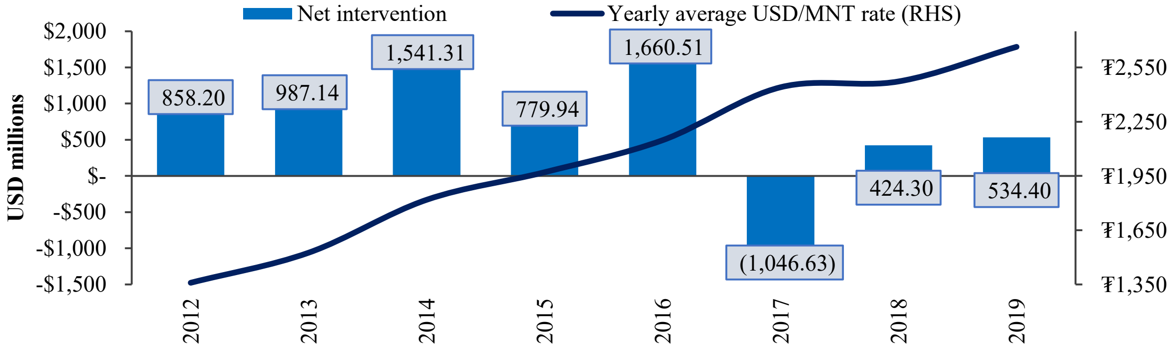
The new regulation on trading of domestic GS in the primary and secondary market was adopted on 20th of February 2019. The Bank of Mongolia reviewed this regulation together with guidance on GS price and yield calculation, allocation and repurchase in the primary and secondary market, and submitted related opinions to the Ministry of Finance. In order to support GS trading in the primary and secondary market, the BOM has closely collaborated with the Ministry of Finance on every occasion.

3.4 FOREIGN EXCHANGE INTERVENTION

The BOM has been working to ensure togrog's exchange rate volatility is consistent with macroeconomic fundamentals. Therefore, the BOM has been intervening in the domestic foreign exchange (FX) market in order to moderate the exchange rate volatility due to short-term demand and supply mismatch.

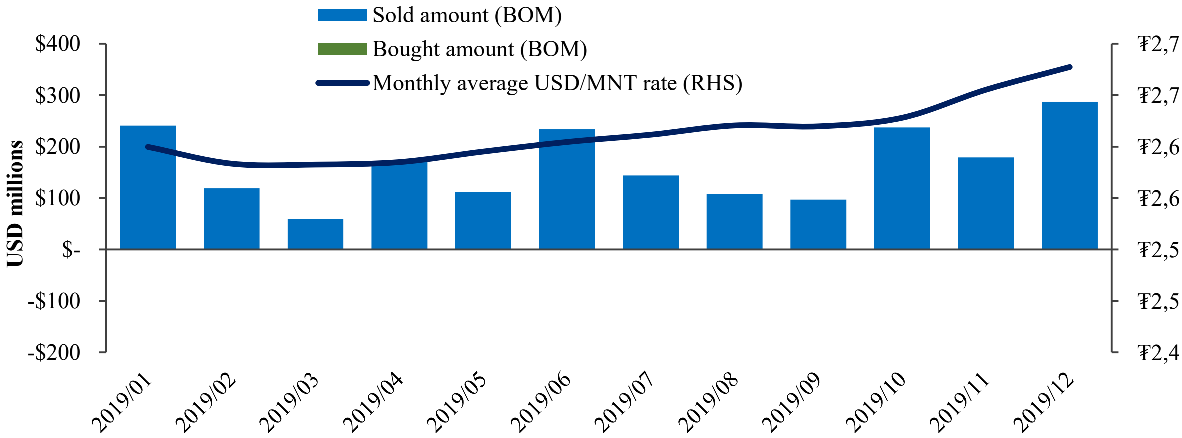
In order to mitigate the short-term fluctuation and speculative demand observed in fourth quarter of 2019, caused by Mongolia's condition with "FATF Grey list", the BOM's net intervention have slightly increased from previous year. As a result, the BOM intervened in the FX market with net amount of USD 534.4 million, through its FX market instruments.

Figure 3.3. Net FX intervention of Bank of Mongolia in 2012-2019 /in million USD/



In 2019, the BOM auctioned 100 times in the FX market amounting to net of USD 1,988.7 million, which is increased by 95.8% from previous year. However, following the joint resolution of Minister of Finance, Chief Cabinet Secretary and Governor of BOM, BOM has bought total of USD 2,282.7 million from state-owned and state dominant entities.

Figure 3.4 USD and CNY auction /USD millions/

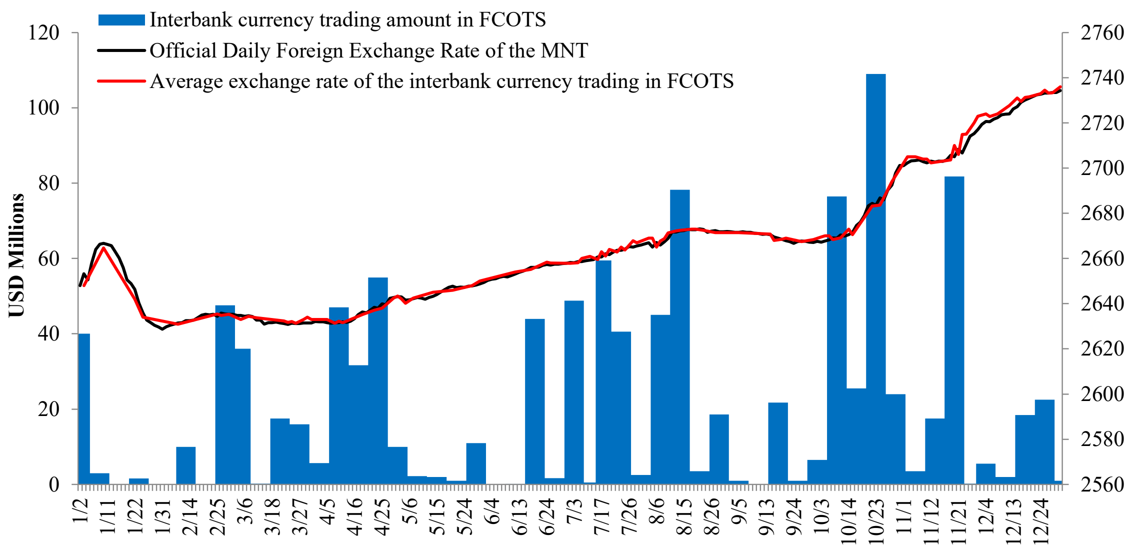


Source: The Bank of Mongolia

Foreign currency online trading system

Following "Monetary Policy Guidelines in 2017", the Bank of Mongolia introduced an electronic trading platform for interbank trading, based on Bloomberg terminal in April 2017, in order to develop domestic FX market infrastructure and to increase its transparency and efficiency. Furthermore, the Bank of Mongolia has set up a "Foreign Currency Online Trading System" based on internally developed software, and the activity of the electronic trading platform of interbank trading has been transferred into this system in December 2018. The system not only simplifies the trading process and lessens asymmetric information problem but also is important to clarify the process of exchange rate determination in the market and to reduce counterparty and settlement risksassociated with transactions.

Figure 3.5. Interbank currency trading in Foreign currency online trading system /USD millions/



Source: The Bank of Mongolia

Financial derivatives

The BOM introduced short-term financial derivatives in 2010 and long-term swap agreements in 2014, to support short-term liquidity of the commercial banks, to mitigate exchange rate risk, to ease the pressure on spot market, to reduce dollarization in the domestic market and promote economic growth.

Considering the foreign and domestic market conditions, the banks’ cost of external borrowing, the BOM has made amendment and changes to the Long-term swap agreement with Governor’s decree no. A-167 dated 17 June 2019. As a result, banks were able to support economic activity with low interest rates and the long-term financing, and strengthen the framework to reduce the exchange rate risk in the domestic market.

There were no short-term swap agreements made in the reporting period. With regards to the long-term swap agreements, commercial banks made transactions with the BOM using external borrowings with over one-year maturity. Therefore, in 2019, the long-term swap agreements between the BOM and banks amounted to USD 670.3 million, all of which were non-deliverable swaps. Compared to 2018, the total amount of long-term swap agreements has increased by 10.1% or USD 61.8 million. Nonetheless, USD 252.8 million of long-term swaps were settled and its outstanding amount increased by USD 417.5 million to USD 1,989.0 million.

3.5 GOLD PURCHASES

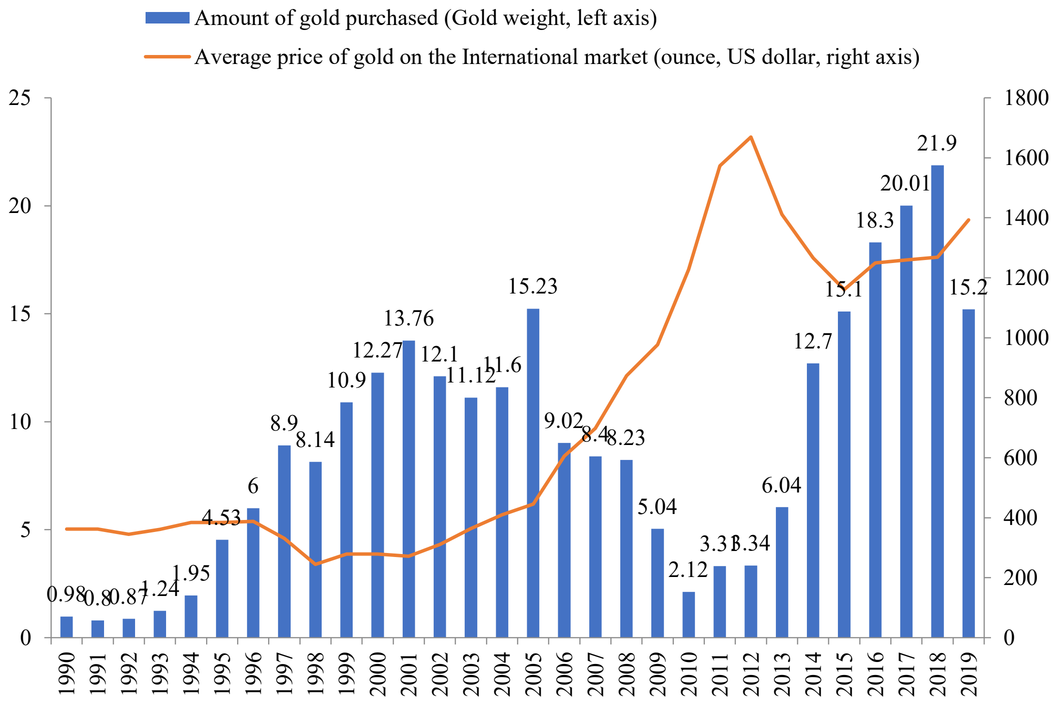
In 2014, with the execution of “Law of Mongolia on Amending the Minerals Law (the Amendment)”, the royalty on golds has become 2.5 percent and additional rate 0 percent. As a result, the domestic gold purchases of the Bank of Mongolia has significantly increased since 2014.

However, the Amendment`s effective period has been expired on 1 January 2019. Then the draft law on the recent Amendments proposed to extend the effective period by another 5 years. But the proposal was not approved by the Parliament. Hence, the royalty for gold has been increased to 5.0 percent and the additional rate 0 percent by the Parliament on 26th of March 2020. The changes to the Amendments came into force on April 8, 2019.

The gold purchase of the Bank of Mongolia was 13 tons in 2014, 15 tons in 2015, 18 tons in 2016, 20 tons in 2017, 22 tons of 2018 and 15.2 tons in 2019, which is a decrease of 30 percent YoY (Figure 3.6). Thus, the purchase of gold has declined compare to previous years due to royalty for gold has been increased to 5.0 percent.

In 2019, the gold purchases in the Bank of Mongolia Branch in Darkhan-Uul Province and Bayankhongor Province were 717 kg and 600 kg accordingly.

Figure 3.6. Gold purchases by the Bank of Mongolia (annually).



Source: The Bank of Mongolia

ORGANIZATIONAL STRUCTURE, OTHER ACTIVITIES AND FINANCIAL STATEMENTS OF THE BANK OF MONGOLIA

4

4.1 ORGANIZATIONAL STRUCTURE

The Bank of Mongolia's organizational structure consists of eleven departments, one center, one institute, three independent units in the head office together with five regional divisions, twelve regional branches, and an overseas representative office in London. The Bank maintained the efficiency of its overall operations with a total of 555 employees, with 435 employees in the head office and 120 employees in the regional branches and divisions.

Within the framework of the medium-term internal operations reform program in 2019, the Bank of Mongolia carried out several activities aimed towards organizational restructuring, strengthening human resource capacity and the legal environment, reinforcing international cooperation, and implementing advanced technologies and practices.

The Bank's organizational restructuring included the establishment of the Credit Information Unit, and the Secretariat of the Financial Stability Board was abolished and moved to the Monetary Policy Department's newly established Macroprudential policy division. Furthermore, the Financial Intelligence Unit was reinforced with additional staffings.

The Bank has continued to ensure its human resource policy of strengthening human resource capacity, developing leadership skills, improving employee retention rate through continuing to train our employees, and improving their working conditions and compensations, and resolving social issues. A total of 260 employees were involved in both foreign and domestic training and official visits.

A regional workshop for banking sector employees was organized, which included debates, meetings and training of employees of regional branches and divisions of the Bank of Mongolia for internal operations functions. The workshop was broadened and included representatives from the local government, commercial banks, and international financial institutions.

The Bank is reforming its information technology system to create conditions for its employees to effectively collaborate online, and to store, share, use and analyze information collected for official purposes in electronic form through introducing the latest technology in its activities. Additionally, we are in the final stages of finalizing the implementation of the Enterprise resource planning system as part of the Payment System Modernization Project of the Asian Development Bank.

The Bank of Mongolia is continuously improving its legal environment to redefine the activities of the Bank, form efficient decision-making processes, and improve its transparency and control systems.

4.2 FOREIGN RELATIONS

Highlights from the international cooperation of the Bank:

The Bank of Mongolia participated in the "Knowledge Partnership Program" implemented by the Bank of Korea under the "Memorandum of Understanding" signed between the two Central banks on August 14, 2011. The joint team of the Bank of Mongolia, Sungkyunkwan University, and the Bank of Korea, conducted this year's research on "Developing Financial Market Infrastructure and Making an Efficient, Transparent Database & Information Sharing System" and published booklets on the results of the project.

The Bank of Mongolia has continued to cooperate with international institutions such as the International Monetary Fund, the Asian Development Bank, and Asia/Pacific Group on Money Laundering to strengthen Mongolia's anti-money laundering and counter-terrorist system.

In 2019, the Bank of Mongolia signed the "Cooperation Agreement" with the Bank of Russia which provides the opportunity for the two countries' central bank employees to share work experience through technical internships, provide technical assistance through exchanging experts, as well as participate in training, seminars, and regional events, and will enhance bilateral relations.

The Bank of Mongolia has closely cooperated and organized meetings with the International Monetary Fund Resident Office in Mongolia to ensure the successful implementation of the Extended Fund Facility (EFF) program. Furthermore, the Bank has continued to closely collaborate and receive technical assistance from the Asian Development Bank, the World Bank, and the International Finance Corporation.

The Bank of Mongolia regularly participated in the annual meetings of the International Monetary Fund and the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Bank for International Settlement, and the South East Asian Central Banks.

In ensuring the financial stability of the region, the Bank has effectively participated in the programs and trainings from the Central Asian Regional Economic Cooperation Program, the South East Asian Central Banks Research and Training Centre, and the Caucasus, Central Asia, Mongolia, and Moldova group discussions and other events.

The Bank of Mongolia successfully co-organized the annual roundtable meeting with the Bank of Russia in Moscow and the roundtable meeting with the People's Bank of China in Shanghai. The meetings provided an opportunity to expand cooperation not only between the Central Banks but also between countries' commercial banks and financial institutions.

The Bank of Mongolia and the South East Asian Central Banks Research and Training Centre jointly organized a monetary policy and financial stability seminar on "Financial cycle and crisis". Twenty-nine economists from ten Asian countries attended the seminar and discussed links, causes and indicators of the financial cycle, its impact on the economy, and macroeconomic policy responses.

The Bank has continued to cooperate closely with the Deutsche Bundesbank, the National Bank of Poland, the Federal Reserve, the Istanbul School of Central Banking, the Swiss National Bank - Study Center Gerzensee, the International Banking and Finance Institute of Banque de France, the International Monetary Fund's Regional Training Institute in Singapore, the Joint Vienna Institute, and the World Bank's Reserves Advisory & Management Partnership program, and other central banks to strengthen our human resource capacity and competence.

The Bank of Mongolia organized a conference for the 95th Anniversary of Mongolia's banking sector and the Economic Policy Forum 2019 under the theme of "Development of the financial sector: Past, Present, Future". The conference's attendance consisted of representatives from international financial institutions and foreign-invested companies.

The Bank of Mongolia and the Ministry of Foreign Affairs jointly organized a forum on "Environment and Challenges of Foreign Trade and Foreign Investment in Mongolia". The forum was effective in addressing foreign trade challenges through active participation from the private and public sectors, foreign diplomatic missions, and international investors.

The International Finance Corporation, the National Development Agency and the Bank of Mongolia jointly organized a conference on “Investment Climate: Stability” to discuss the current investment climate, economic diversification, its challenges and potential solutions between representatives from the National Chamber of Commerce and Industry, investors, international financial institutions, foreign diplomatic missions. The conference featured an exclusive panel on “Ambassadors' Hour”.

4.3 PUBLIC RELATIONS

In order to sustain the central bank's transparency and accountability, the Bank of Mongolia took the following actions explaining policy decisions and its rationale to the public:

Improving accessibility of Inflation Report

One of the key communication instruments of the Bank of Mongolia is the Inflation Report, and the Central Bank continued to issue graphics and data used in quarterly inflation reports, in portable document and spreadsheet format on its official website. Besides, the Bank has been disseminating shortened and simplified version of the Inflation Report over its social pages. The bank is successfully utilizing its social pages and other internet outlets to improve the accessibility of the report, explain the effect and outcomes of the Monetary Policy Committee decision, and manage inflation expectations of the public. Furthermore, we are holding quarterly briefings to banking and financial professionals, researchers, the public, and journalists on inflation report and changes in the economic outlook.

Interpretation and dissemination of Monetary Policy Committee (MPC) decisions

In 2019 the Central Bank held four press conferences on MPC decisions, in March, June, September, and December. Moreover, the Bank of Mongolia published MPC statements and its rationale on its official website and social pages to inform economists, experts, investors, general public, and all stakeholders of the economy. The members of the MPC and director-general of the Monetary Policy Department attended numerous interview sessions to provide information on the decisions and economic outlook. In addition, Bloomberg and Eagle News constantly broadcasted special programs on monetary policy with the Bank of Mongolia’s involvement.

Press conferences

To enhance its transparency, the Bank of Mongolia held monthly press conferences on topics such as statistics of banking and financial sector and current economic topics. In doing so, it is customary to broadcast live on Facebook during press conferences on a monetary policy decision, monthly statistical information, and other special topics. During the reporting period, a total of 17 press conferences were held, including four on the MPC decisions.

Research conferences and article contests among journalists

In the reporting year, the 95th anniversary of the establishment and development of the banking sector in Mongolia coincided and annual research conference was organized as part of the anniversary. Furthermore, the bank organized professional and public events such as economic policy conferences, currency-payment instruments-securities exhibitions, banking sector employees' anniversary in cooperation with other organizations, and prepared and published historical books and materials.

The Bank of Mongolia successfully organized its annual research conference in March 2019 for students and researchers in economics separately, to develop their research skills and increase public awareness on the economy by publishing their work. The research papers of successful participants are usually disseminated to the public through the media, and considered in further research in the field. The bank also organized full-day training for journalists twice and announced an article writing contest to encourage journalists’ analytical writing on local economy.

“The Bank of Mongolia's information” Newsletter

During the reporting period, the Bank of Mongolia had published 14 editions of the "Bank of Mongolia's information" newsletter and distributed 11200 copies within the Central Bank’s departments, local branches, and to different stakeholders/institutions such as the President's office, the Government, the Parliament, commercial banks, universities, and provincial officials. In addition, the 26 episodes of “Central Bank and Togrog” was produced and broadcasted in collaboration with Bloomberg and Eagle TV.

In reporting year, the Bank of Mongolia initiated several actions to improve its public communication. Since the beginning of the year, the bank has been running a "Simple economy" section explaining the Bank of Mongolia's policies and activities through preparing articles and delivering short videos. For instance, 12 short videos were prepared, on topics such as “Annual Highlights of the Bank of Mongolia”, “How does pension backed loan calculated?”, “Debt-to-income ratio”, “Security features of new 5,000 togrog banknotes”, “How is the exchange rate determined?” and broadcasted through a different online outlets, as well as 26 articles and 42 info graphics were made. In 2019, the bank successfully organized "Banking Development- 95 years" “National Gold to the Fund of Treasures”, “Responsible customer - Responsible bank” and “Anti financial fraud” campaigns in cooperation with other stakeholder organizations.

Student-trainer of the Bank of Mongolia

In order to introduce the Bank of Mongolia’s operations to the students and provide pieces of training on economics and finance, training called “Student-Trainer” was conducted 12 times and a total of 2500 trainees were enrolled, to become trainers in the future. Besides, the Bank held information sessions called “The Bank of Mongolia Hour” for 11 times, which included 1500 students from 15 universities. During these sessions, governors and directors of various departments gave a speech and it became an invaluable opportunity for students to hear about the career development of Bank of Mongolia’s management and policy decision makings of the Bank.

4.4 MEASURES OF ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM

The Monetary Policy Guidelines for 2019 stated the series of measures to improve the assessment by international organizations on anti-money laundering and combating financing of terrorism (AML/CFT) actions implemented in cooperation with state authorities in Mongolia.

The Asia/Pacific Group on Money Laundering (APG) discussed the mutual evaluation report of Mongolia’s AML/CFT regime in July 2017 and decided to place Mongolia in “Enhanced expedited follow- up” by the Financial Action Task Force (FATF). With this regard, in July 2018, the observation period for Mongolia was extended by another 18 months till October 2019 and, as a result, Mongolia was urged to take necessary measures within the specified period of time to improve its AML/CFT legislative framework and address the technical deficiencies and immediate outcomes rated as partially or non-compliant in the mutual evaluation report. In relation to it, Mongolia requested the APG for re-rating of 20 technical compliance ratings that were assessed as partially or non-compliant and submitted its report on the implementation of immediate outcomes and technical compliance along with the accompanying information and materials on January 31, 2019.

The working group responsible for preparing and presenting a report on the effectiveness of Mongolia’s AML/CFT regime for the Asia/Pacific Joint Group (APJG) was established by the joint decree No. A-92/A-144   by the Minister of Justice and Home Affairs and the Governor of the Bank of Mongolia dated May 28, 2019 and submitted the compiled Progress report on AML/CFT measures taken by the relevant institutions to the international organizations. This working group played a major role in successfully upgrading 16 technical compliance ratings related to FATF recommendations during the APG Annual Meeting held in Australia in

August 2019. Based on the measures taken by Mongolia, the APG decided to place Mongolia in "Enhanced follow-up" instead of "Enhanced expedited follow-up" with the support of the member countries after discussing its proposal with them.

Mongolia's Progress Report on effectiveness was discussed at the joint meeting organized by the FATF and the APG in Thailand in September 2019, and out of 11 immediate outcomes, 7 were addressed as largely compliant, whereas actions taken on remaining 4 outcomes were concluded as not sufficient. As the observation period for Mongolia expired in October 2019, FATF has decided to include Mongolia in the list of jurisdictions with strategic AML/ CFT deficiencies and provided recommendations for further actions needed to be taken.

Thus, in order to improve the effectiveness of AML/CFT regime based on the FATF recommendations, the Progress Report with 6 action items on 4 immediate outcomes as suggested by the APG was developed in cooperation with relevant organizations and submitted to the APJG on December 2, 2019. The delegations led by the Minister of Finance will present this report at the APJG meeting to be held in January 2020.

The measures taken by the Bank of Mongolia in cooperation with the relevant organizations played a decisive role in improving the implementation of the immediate outcomes and technical compliance in Mongolia. For instance, in order to strengthen the legal environment of AML/CFT regime, the following laws, regulations and manuals were developed in 2019:

- The State Great Khural (Parliament) passed the "Law on countering proliferation of mass destruction weapons and terrorism" on October 10, 2019 and amended 8 other laws in relation to the issuance of this law.
- In order to improve the capacity of all reporting entities to combat money laundering and terrorism financing (ML/TF) and enable them to effectively fulfill their obligations specified in the AML/CFT law, the revised version of "Preventive measures regulation on combating ML/TF" was drafted and approved by the decree No. A-26 of the Governor of the Bank of Mongolia dated January 21, 2019.
- With the assistance of consultants from the Australian Department of Home Affairs, "Draft Regulation on listing of terrorist persons and freezing and controlling movement of their assets" was developed by a working group consisting of representatives of member organizations of the Cooperation Council and approved by the Resolution No. 54 of the Government of Mongolia dated January 31, 2019.
- "Manual on Beneficial Owner Identification and Verification", "Guideline on Implementing Risk-Based Approach in Combating ML/TF", "Manual for Reporting Entities on Identifying Politically Exposed Persons" and "Guideline on Implementing Targeted Financial Sanctions" were drafted and published.
- In relations to the reform of the relevant legislations, revised draft versions of the Regulations for conducting on-site inspection and off-site monitoring by the Bank of Mongolia on banking operations to combat ML/TF and counter proliferation of mass destruction weapons, approved by the decree of the Governor of the Bank of Mongolia in 2018, and Regulation for conducting on- and off-site AML/ CFT inspections on reporting entities other than banks, approved by the resolution of the Financial Regulatory Commission in 2018, were drafted.
- "The AML/CFT risk assessment questionnaire for Designated Non-Financial Businesses and Professions (DNFBPs)" was prepared and published on the Bank of Mongolia's website, and documents related to strengthening the supervision of DNFBPs were developed as well. Accordingly, supervising authorities of DNFBPs conducted AML/CFT risk assessment of their respective sectors, and the Financial Information Unit (FIU) at the Bank of Mongolia participated and collaborated in this work.

Thus, approval of the amendments to the AML/CFT law and other relevant legislations and revisions of the applicable regulations and guidelines were crucial for strengthening AML/CFT regime of Mongolia in line with the FATF recommendations, expanding the scope of the legal framework, introducing risk-based practices in conducting supervision, performing customer due diligence based on risk-based approaches, updating the definitions of legal terminologies in line with the international standards and strictly tightening the liabilities for legal persons violating the legislations.

In order to improve the AML/CFT legal framework and to increase the capacity of the FIU, the FIU cooperated with the following international organizations:

- The FIU worked with the consultants of the International Monetary Fund (IMF) from January to October 2019 to improve the AML/CFT supervisory framework and to prepare a report in relation to the FATF's enhanced follow up monitoring.
- "The law on countering proliferation of mass destruction weapons and terrorism" and its accompanying regulation on implementing targeted financial sanctions and detailed handbook were drafted with the technical assistance from the Australian Department of Home Affairs.
- In order to fight against ML/TF crimes, the FIU has negotiated to purchase GoAML software, which is used by FIUs around the world, as well as to receive a certain amount of funding to pay its annual service fees under the technical assistance from the US Department of the Treasury. Introducing this program is important to strengthen AML/CFT regime in Mongolia and to improve the quality of suspicious transaction reports.
- In cooperation with the Financial Regulatory Commission, trainings and seminars were organized for relevant institutions to raise awareness of the obligations of reporting entities and to strengthen the supervisory capacity with the technical assistance provided by the Asian Development Bank.

The AML/CFT supervision activities on banks continued throughout 2019 (Table 4.1). In this regard, the Bank of Mongolia conducted risk-based on-site examinations on 4 banks, and carried out 19 thematic inspections in addition to consolidated supervision in cooperation with the Financial Regulatory Commission. As a result, necessary measures were taken.

Table 4.1. AML/CFT supervision

Indicators	2016	2017	2018	2019
Supervision of banks	13	2	14	24
Supervision of reporting entities other than banks	419	139	1025	269
Action notices given to banks and reporting entities other than banks	14	29	4	31
Rectification orders given to banks and reporting entities other than banks	393	367	272	245

Source: FIU, Bank of Mongolia.

According to the AML/CFT law, the Bank of Mongolia received Cash transaction reports on transactions in the currency of more than MNT 20 million, Foreign settlement transaction reports and Suspicious transaction reports (STR) from banks, non-bank financial institutions, savings and credit cooperatives, professional participants of securities market, insurers and insurance intermediaries, as well as Customs declaration reports on smuggling cash across the border from the Customs General Administration (Table 4.2).

Table 4.2. Reports received by the FIU

Indicators	2016	2017	2018	2019
Suspicious transaction reports	282	203	1,596	2,385
Cash transaction reports	838,110	572,181	669,910	562,926
Foreign settlement transaction reports	90,560	98,549	126,944	131,715
Customs declaration reports	1,488	1,533	1,413	11,870

Source: FIU, Bank of Mongolia.

The FIU received a total of 2385 STRs in 2019 which is 49 percent increase compared to 2018. The Foreign settlement transaction reports increased by 4 percent, whereas Customs declaration reports increased by 8 times. Within its main function of analysing the STRs received from the reporting entities and disseminating those STRs which have grounds for ML/TF to the law enforcement agencies (LEAs) for further investigation, the FIU has exchanged information and cooperated with the LEAs (Table 4.3).

Table 4.3. Exchange of information of FIU

Indicators	2016	2017	2018	2019
STRs analyzed or under analysis	245	35	151	84
Number of reports FIU has passed on to local LEAs for investigation	166	15	181	48
Number of requests FIU has received from local LEAs	1,200	1,945	2,510	2,396
Number of responses LEAs have provided for the FIU requests	1,238	1,834	2,300	2,634

Source: FIU, Bank of Mongolia.

Mongolia joined the Egmont Group as a member in 2009, and the FIU became able to exchange information and cooperate with FIUs from 155 member countries of the Egmont Group on behalf of Mongolia. In 2019, the FIU received requests for a total of 133 legal persons from 11 overseas countries and provided responses for 144 requests including those received in previous year. The FIU requested relevant information on 238 legal persons from FIUs of 19 overseas countries and received responses and information on 144 legal persons (Table 4.4).

Table 4.4. Exchange of information via Egmont network

Indicators (By the number of legal persons)	2016	2017	2018	2019
Number of requests FIU has sent to foreign FIUs and organizations with similar functions	163	393	231	238
Number of responses foreign FIUs and organizations with similar functions has provided to the FIU	175	316	193	202
Number of requests FIU has received from foreign FIUs and organizations with similar functions	47	167	126	133
Number of responses FIU has provided to foreign FIUs or organizations with similar functions	46	151	126	144

Source: FIU, Bank of Mongolia

The FIU has regularly conducted trainings and seminars and given interviews on media outlets to introduce amendments to laws and regulations, promote AML/CFT international standards, introduce international practices, and improve the coordination of relevant organizations. For instance, in 2019, a total of 28 trainings and seminars were organized for more than 1,525 representatives of private sector institutions and professional associations, as well as relevant government agencies, including the Ministry of Justice and Home Affairs, the

Financial Regulatory Commission, the Customs General Administration, the General Intelligence Agency, and the General Police Agency.

4.5 INTERNAL AUDIT

The Internal Audit Department has performed its main function to reduce operational risks and to support the Bank in achieving its goals and objectives by conducting on-site audits and remote surveillance on departments and units, providing necessary information to the management, making recommendations on how to improve its risk management and internal control, and following up the implementation of the recommendations.

"The Three Lines of Defense in Effective Risk Management and Control" was used to design an annual internal audit plan, audit guidelines, timing and frequency of activities.

In the reporting period, the Internal Audit Department carried out a total of 19 comprehensive on-site audits and 11 partial audits as per the annual auditing plan approved by the Governor of the Bank of Mongolia. The audit findings and recommendations were presented at the Board of Directors meetings, further actions and recommendations were issued and its implementations were closely examined.

In addition, several thematic audits were carried out on specific activities of the Bank of Mongolia, the results were presented to the Governor of the Bank of Mongolia, and the implementation of approved measures to be taken are monitored.

“Procedures for the Unified Database of the Internal Audit Department of the Bank of Mongolia”, “Manual for the auditing personnel of the Bank of Mongolia internal audit performing unit”, “General guidelines on performance audit activities of the Bank of Mongolia” were updated in accordance with the international standards for internal auditing.

The Internal Audit Department have been monitoring the implementation of the recommendations given by the external auditor on the financial statement of the Bank of Mongolia as well as the implementation status reports of the Supervisory Board resolutions by the relevant units upon the management approval.

During the reporting period, as part of the Strengthening Fiscal and Financial Stability Project, financed by the World Bank Group, the Internal Audit Department has received consulting services to introduce risk-based auditing methodology. The External Quality Assessment of the internal audit activities have been conducted by the consultant, and a draft Medium-Term Strategic Action Plan (Quality Assurance and Improvement Plan) was co-developed. Within the project, internal audit personnel has participated in the training and workshops held by the consultant on topics related to risk-based audit planning and execution, data analysis tools used in internal auditing, and information technology auditing. We continue to work with the consultant to improve the Bank of Mongolia's internal audit activities in line with international standards.

4.6 RISK MANAGEMENT

During the reporting year, the Risk Management Unit formulated a short to medium term asset allocation framework and related benchmarks of the foreign exchange reserves and monitored their limits and controls to manage possible financial risks arising from foreign reserve management. Besides, the unit developed collateral frameworks for central bank lending operations and monitored their implementations in order to identify, control and manage possible financial risks arising from the central bank lending operations. Furthermore, the Risk Management Unit conducted continuous identification, evaluation, monitoring and reporting of operational risks effectively so that risks associated with day-to-day operations at the Bank of Mongolia are minimized.

Financial risk management

Credit risk

Within the scope of the credit risk management of the foreign exchange reserves, exposure limits were set in terms of each financial instrument, each foreign or supranational counterparties, each credit ratings, and each country and the foreign reserves were allocated to foreign central banks, foreign government-guaranteed organizations, supranational, foreign bank and financial organizations with investment grades. Moreover, in order to limit the credit risk, portfolio optimization models were used to determine possible maximum amounts of time deposits allocated to foreign banks and financial institutions and the implementations of the strategic asset allocation were monitored on daily basis.

In order to improve counterparty risk management, the Risk Management Unit adopted credit risk methods used to set exposure limits based on its research on international best practices including other central banks and supranational institutions. Further, we have planned to develop the approach and established a task force to advance methods used for the assessments on foreign counterparties.

During the reporting period, risk assessment guideline for financial assets was amended in accordance with International Financial Reporting Standard-9, thereby calculations on expected credit loss has become more accurate and loan loss provisions was created adequately in case any realized loss incurred.

In addition, the Risk Management Unit set daily trading limit for each participant on the interbank forex trading platform as well as appointed primary dealers in the platform on quarterly basis.

Market risk

Within the framework of the foreign exchange reserve management, strategic asset allocations including eligible currency and asset compositions were formulated to minimize exchange rate risks by taking into account internal and external factors such as the central bank's exchange rate policies, outstanding amounts of the country's foreign debts, domestic FX market condition and absolute amounts of import, outflows denominated by foreign exchanges from domestic commercial banks and the trade on domestic exchange market, and actual performances of the strategic asset allocation was monitored on daily basis. Furthermore, to manage interest rate risk, risk constraints such as modified durations and their allowed deviations were set optimally.

During the reporting year, the Risk Management Unit valued fair values of corporate bonds that the central bank owned under the Troubled Asset Relief Program in accordance with widely accepted valuation standards and potential market risks were reflected on financial statements. Moreover, the long-term swap contracts, which the central bank made with domestic banks in order to minimize the exchange rate risks, increase foreign currency inflows, and decelerate growth of interest rates of loans as well as outstanding loans in FX, were revalued and unrealized gains and losses were reflected on financial statements weekly.

In addition, research works were carried out continuously in order to improve the methodologies and approaches used to estimate the expected credit loss for financial assets of the Bank of Mongolia and some research findings were included when drafting related guidelines.

Liquidity risk

Within the framework of foreign exchange reserve management, the total portfolio was divided into short-term and investment portfolios and managed accordingly in order to prevent from liquidity risk. Optimal size of the short-term portfolio was determined in accordance with the results of commonly used reserve adequacy metrics by taking into account the government external debt payments, projected needs for imports and outflows denominated by foreign currencies from domestic commercial banks. Furthermore, the foreign exchange reserves were invested in highly liquid financial instruments such as current accounts, time deposits, and short-term bills, and the duration of the liquidity portfolio was rebalanced monthly in line with that of the benchmark index.

Monitoring and reporting of the foreign exchange reserves management

Market value, risk and return performances of the foreign exchange reserves was valued on daily basis and the actual performances of the strategic asset allocation and allowed exposure limits were monitored daily by Risk Management Unit. Furthermore, quarterly financial results and credit updates on credit ratings of foreign counterparties were used on credit risk analysis and was applied for investment decision making.

Operational risk management

The Bank of Mongolia adopts internationally accepted methods to identify and evaluate its day-to-day operational risks and attempts to strengthen its operational risk management framework.

We have conducted Risk control and self-assessment covering all staffs at the Bank of Mongolia for three consecutive years. Results of the Risk control and self-assessment enable us gauge valuable insights into inherent risks and discern measures to mitigate them. Furthermore, we updated the list of key risk indicators for the purpose of measuring and monitoring its day-to-day operational risks and provided management team with report in timely manner. Adopting key risk indicators has been of a great importance in measuring operational risks, discovering and reducing their root causes.

In 2019, we launched an in-house “Operational risk data base” program to facilitate the reporting of internal incidents and near misses and the reporting of key risk indicators. The program is intended to automate reporting by operational units and to create operational risk and loss data base in the Bank of Mongolia’s IT server. In the reporting year, we completed business process mapping in central bank bill trading process and forex auction process and made some recommendations to reduce risks related to the decision making and execution process.

In order to foster operational risk culture within the institution, we started to collaborate with representatives from each department and adopted range of risk training activities. We intend to increase risk awareness and cooperation within the institution as well as to improve risk training activities.

4.7 BANKNOTE DEMAND AND SUPPLY

Demand for cash in terms of value has been decreased slightly compared to the previous years, whereas its volume increased gradually in the reporting year.

The outstanding balance of cash in circulation was 897.38 billion togrog as of December 31, 2019 and its volume reached 471.96 million banknotes. Compared to that of December 31, 2018 the volume went up by 18.93 million or 4.2 percent and the value declined by 71.2 billion togrog or 7.4 percent.

4.5. Changes in Cash in Circulation in terms of value

№	Denomination	Cash in circulation by the end of year (million togrog)							
		2012	2013	2014	2015	2016	2017	2018	2019
1	1	26	29	30	30	31	32	32	33
2	5	12	131	133	136	140	143	146	149
3	10	527	571	623	680	744	830	900	970
4	20	736	880	966	1,010	1,086	1,343	1,488	1,622
5	50	1,676	1,843	2,016	1,982	2,242	2,725	3,134	3,300
6	100	3,375	3,745	3,963	4,039	4,526	5,480	6,138	6,596
7	200	68	34	34	35	36	36	36	37
8	500	5,200	5,661	5,978	5,702	6,390	7,057	7,772	8,312
9	1000	13,727	14,263	14,756	16,278	17,962	18,570	19,724	20,291

10	5000	64,394	53,975	50,003	43,420	54,091	62,875	68,902	67,545
11	10000	234,702	207,230	187,416	148,941	165,678	189,379	213,472	185,444
12	20000	501,525	553,908	544,274	484,264	570,665	617,887	646,835	603,081
Total		825,969	842,269	810,192	706,517	823,591	906,358	968,580	897,380

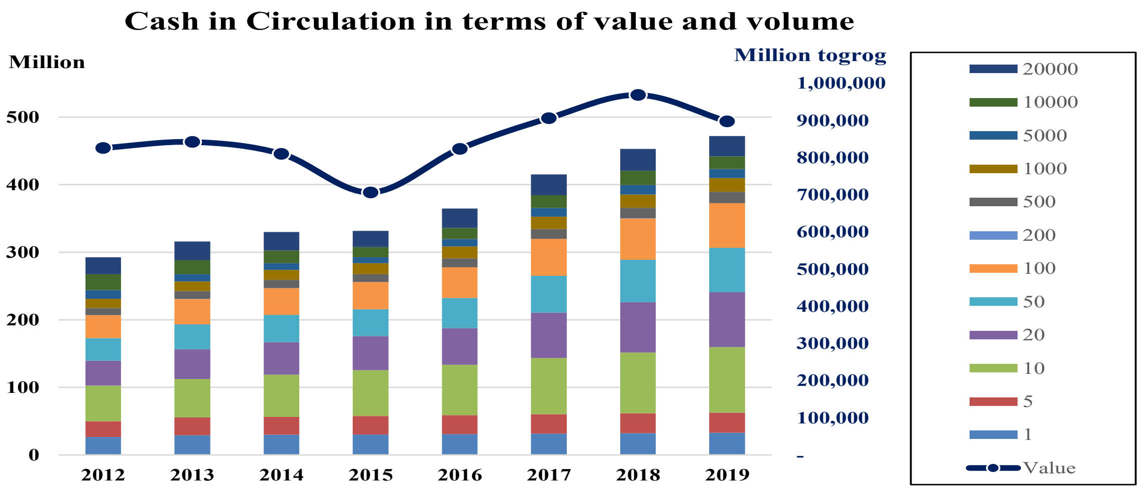
4.6. Changes in Cash in Circulation in terms of volume

№	Denomination	Cash in circulation by the end of year (million pieces)							
		2012	2013	2014	2015	2016	2017	2018	2019
1	1	26.4	29.26	29.72	30.30	31.01	31.71	32.32	32.80
2	5	23.5	26.24	26.70	27.24	27.97	28.68	29.29	29.75
3	10	52.7	57.06	62.31	67.96	74.43	83.05	90.04	97.01
4	20	36.8	44.00	48.28	50.50	54.28	67.17	74.40	81.12
5	50	33.5	36.86	40.32	39.64	44.85	54.49	62.68	66.01
6	100	33.8	37.45	39.64	40.39	45.27	54.80	61.38	65.96
	200	0.3	0.17	0.17	0.18	0.18	0.18	0.18	0.18
7	500	10.4	11.32	11.96	11.40	12.78	14.11	15.54	16.62
8	1000	13.7	14.26	14.76	16.28	17.96	18.57	19.72	20.29
9	5000	12.9	10.79	10.00	8.68	10.82	12.58	13.78	13.51
10	10000	23.5	20.72	18.74	14.89	16.57	18.94	21.35	18.54
11	20000	25.1	27.70	27.21	24.21	28.53	30.89	32.34	30.15
Total		292.6	315.8	329.8	331.7	364.7	415.2	453.02	471.96

In financial year 2019, the declining value of cash in circulation followed the gradual declining movement of broad money supply and M1 money in annual basis.

Yet due to the fact of no returning of small denominations of banknotes to the Central bank, the volume of cash in circulation surged.

Figure 4.1. Denominational changes in both value and volume of banknotes:



According to the general trend of currency in circulation for the last 8 years, the volume has been increasing persistently and its value declined during 2014-2015 but rose back during 2016-2018. This implies that cash in circulation goes along with the economic cycle.

Moreover, this trend of cash indicates that although various new means of noncash payment methods have been introduced and being used for people’s daily settlements, it is not able to significantly pull down the cash payments.

Last three years Bank of Mongolia has been paid special attention to the improvement of security feature of the banknotes with latest technologies against counterfeiting. In the reporting year newly upgraded 50 and 20000 togrog banknotes, which have totally new public features of three-dimensional micro-optical stripe, color shifting element and tactile feature for the visually impaired. Those upgraded banknotes have a perfect harmony of traditional and historical elements with the latest security technologies and public can easily recognize its authenticity.

With the purpose of providing a sufficient cash stock in its local branches located in 21 provinces of Mongolia, the Bank of Mongolia replenished these branches with 106.2 billion togrog in financial year 2019.

4.8 INFORMATION TECHNOLOGY

In 2019, The Bank of Mongolia's Information Technology Department worked to maintain the safety, reliability, and continuous operation of the interbank payment system, interbank electronic trading platform, and public credit registry system as well as the internal operation systems.

Furthermore, in addition to improving and developing our current systems in use we have introduced several new technologies and operations and, as a result, achieved the following:

- Redesigned the Interbank FX Auction system and added to the interbank electronic trading platform. As a result, the auction can be distributed in single or multiple rates.
- Established and launched the Key Risk Indicator's database program in order to reduce the operational risk of the Bank of Mongolia.
- Within the scope of launching the new version of Interbank low value transaction system, we renewed the the Bank of Mongolia's payment transaction program.
- Automated the Public Credit Registry system to reconcile the registration number of citizens or organizations by comparing with the General Authority for State Registration's database to avoid submission of incorrect information to the database.
- Made the coins issued by the Bank of Mongolia available to buy online using any card provided from any commercial bank in Mongolia.
- Implemented a new version of the performance management system.
- Constructed a new back up site at the Bank of Mongolia's backup center ensuring the continued operation in a case of any disruption is occurred at the main center.
- Enhanced the local network speed across the Bank of Mongolia's buildings up to 10Gbps

In addition, the Information Technology Department of the Bank of Mongolia has been worked to ensure the continuity and reliability of the information systems, upgrade the information security, and to improve preventative measures against cyber and virus attacks.

4.9 SUMMARY OF THE LEGAL ACTS AND DECISIONS MADE BY THE BANK OF MONGOLIA IN 2019

№	Legal acts and decisions	Date	Number	Meaning
	Supervision of banking activities			
	Regulation on preventive measures on combating money laundering and terrorism financing	2019.01.21	A-26	Detailed description of the reporting entities activities and responsibilities in relation to the combating money laundering and terrorist financing and their prevention and detection
	Regulation on management, framework and reporting guidance on non-performing assets resolutions	2019.01.23	A-32	To determine the criteria and objectives to develop the planning, managing, implementing, reviewing and reporting frameworks to reduce and resolve bank's non-performing assets in line with scope and complexity of bank activities.
	Regulation on determining, maintaining, reporting and monitoring the limitations set on bank operations	2019.02.12	A-36	Regulates determining, maintaining, reporting and monitoring the limitations set on bank operations in specified in Article 17 of the Banking Law and the principles governing relations between connected person and related parties.
	Regulation on terms and conditions for subordinated debts convertible to shares and preferred shares issued by recapitalized banks	2019.02.20	A-53/30	To review and set out the convertibility terms and conditions of subordinated debts or preferred shares into common shares of recapitalized banks.
	Rules of Credit information bureau of the Bank of Mongolia	2019.02.22	A-55	Regulates activities of the Credit information bureau, cooperation with other units of the Bank of Mongolia, credit information service providers, suppliers and consumers
	Regulation on setting and monitoring prudential ratios to banking operation	2019.02.25	A-57	To set minimum requirements by Bank of Mongolia on risk bearing capacity of banks, defined Articles 16.1.1 and 16.1.2 of the Banking Law, and to ensure regulated banks follow and comply with the set requirements.
	Regulation on issuing a license for incorporating a bank	2019.03.22	A-82	Based on chapter 3 of the Banking Law, the Bank of Mongolia regulates procedures of approving, licensing and refusing to license banks.
	Regulation on issuing a license for conducting banking activities			On the basis of Article 23.4 of the Banking Law, the Bank of Mongolia regulates receiving, reviewing, issuing, restricting, suspending and revoking additional banking licenses.
	Regulation on changing the composition and amount in the bank paid-in capital		A-82	On the basis of Article 36 of the Banking Law, the Bank of Mongolia regulates the issuance approvals to changing the composition the amount and structure of the Bank's paid-in capital, to issue new shares and share-related securities, to obtain influential shareholder status and to change the amount and structure of influential shareholders.
	Guidance on processing a request and its related documents to incorporate a bank, conduct banking activities, changing the amount and composition of bank paid-in capital			Procedures of request and its related documents to incorporate a bank, conduct banking activities, changing the amount and composition of bank paid-in capital

	Regulation on payment cards	2016.04.05	A-92	Regulates the implementation and monitoring activities of payment cards transaction in Mongolia and grants or revocation and defines the rights, obligations and responsibilities of participants
	Regulation on setting and monitoring prudential ratios to banking operation	2019.05.23	A-138	To set minimum requirements by Bank of Mongolia on risk bearing capacity of banks, defined Articles 16.1.1 and 16.1.2 of the Banking Law, and to ensure regulated banks follow and comply with the set requirements.
	Regulation on asset classification, provisioning and its disbursements	2019.06.10	A-155/134	To set the minimum requirements by the Bank of Mongolia on classifying the loans defined in the Article 27.1 of Law on deposits, loans and banking transactions and other assets, as well as on establishing and disbursing loss provisioning on both loans and other assets stated in the Article 35.5 of The Banking law and to ensure regulated banks follow and comply with the set requirements.
	Rules on automated clearing house system	2019.10.07	A-262	Regulates the implementation and monitoring activities by the automated clearing house system transaction in Mongolia and grant or revocation in the system and defines the rights, obligations and responsibilities of participants.
	Regulation on issuing a license to provide a credit information service	2019.10.23	A-264	Regulates the monitoring licensed legal entities and issuing a license and refusal credit information service by the Bank of Mongolia
	Regulation on setting, determining and monitoring a bank reserve requirements	2019.12.06	A-295	Implementation of monetary policy and macroprudential policy by the Bank of Mongolia, ensuring liquidity and defining, determining and monitoring bank reserve requirements

4.10 ECONOMIC RESEARCH AND TRAINING INSTITUTE

Publications: In line with its commitment to support Mongolia's development, economic and financial policymaking, the Economic Research and Training Institute (ERTI) has published the following working papers since its establishment:

- "Mongolia in the Last 30 Years: Success and Challenges"
- Financial Condition Survey of Middle-Income Households – 2018
- Bank of Mongolia Outlook on the Tax Reform Package
- "Exchange Rate Pass-Through in Mongolia"
- "Flow of Funds: The Case of Mongolia in Recent Years"
- "Economic Growth and Inflation Analysis"
- "Policy Response and Lessons from the Financial Crisis"
- "Issues on Seasonal Adjustment: Measuring the Trading Day and Working Day Effects for Mongolia"
- "Economic Performance Index in Mongolia"
- Economic Review Q1, 2019

- "Economic Implications of the Trade War: The Case for Mongolia"
- "Economic Rationale of the Trade War and the Mongolian Economy"
- "Fiscal Policy Issues: Measuring the Fiscal Policy Stance"
- Economic Review Q2 and H1, 2019
- Regional Economic Trends Report
- "Income Inequality in Mongolia and Worldwide"
- "Geography of Inflation"
- "Real and Nominal Determinants of Exchange Rate: A Machine Learning Application"
- "Total Factor Productivity in Mongolia"
- Household Consumption and Financial Condition Survey – 2019
- "Effects of Monetary Policy on Income and Wealth Inequality"

To provide government agencies with the necessary economic policy research, ERTI has released the following publications, which were published online and/or delivered to the Parliament of Mongolia, Standing Committee on Economic Affairs, Office of the President of Mongolia and the Chairman's Office of the Parliament of Mongolia:

- "Money, Finance, Wealth" Journal
- "Simple Economics" Journal
- Inflation Calendar

Training

In cooperation with other departments, ERTI has organized the following events and training activities intended

for finance sector professionals, regional authorities and other stakeholder groups:

- Seminar for independent board members of commercial banks was held with the aim to enhance their involvement in board decision making and subsequently promote effective corporate governance within the banking sector;
- Weekly seminars for commercial bank staff have been organized to facilitate effective communication between the central bank and commercial banks. Seminars covered a range of topics, including compliance practices, IFRS, payment systems, combating money laundering and terrorism financing, banknote security features, developments in fintech and bank collaboration, data governance, management of non-performing loans, implementation of Basel III standards and financial consumer protection framework;
- Regional training activities were organized for various stakeholder groups in rural areas of Mongolia in an effort to inform financial consumers about the banking system and its operations;
- Secondary school student groups were offered talks about the role of the central bank and the economy;
- Newcomer orientation training has been organized regularly for new staff members of the Bank of Mongolia. In addition, seminars on the current economic outlook and foreign exchange markets were offered for corporate groups on demand.

Conferences and Other Events

ERTI hosts conferences and meetings to present research undertaken by the Bank of Mongolia, as well as create the necessary policy environment for a cooperative relationship between departments, agencies and government offices. In 2019, ERTI organized and presented at the following conferences:

- International conference on "Investment Climate: Stability" was hosted in conjunction with the Research and Statistics Department, International Finance Corporation and the National Development

Agency;

- Annual conference on national account systems was hosted in partnership with the National Statistics Office with the aim to facilitate information exchange between experts, compilers and users of national accounts statistics;
- Presented at number of external conferences, including “National Account Systems – 2019”, “Economic Policy Forum 2019”, “Foreign Trade, Investment Environment and Its Challenges”, “Balance of Payments and Foreign Debt”, “Investment Climate: Stability” and “Think Bank 2019: Monetary and Financial Environment” forum.

BANK OF MONGOLIA

(INCORPORATED IN MONGOLIA)

AUDITED FINANCIAL STATEMENTS

31 DECEMBER 2019

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

CONTENTS

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

GENERAL INFORMATION

BOARD OF DIRECTORS:	Mr. Lkhagvasuren B.	Governor (promoted from Deputy Governor on 22 November 2019)
	Mr. Bayartsaikhan N.	Governor (resigned on 22 November 2019)
	Mr. Dulguun G.	First Deputy Governor (appointed on 7 May 2020)
	Mr. Erdembileg O.	First Deputy Governor (resigned on 7 May 2020)
	Mr. Enkhtaivan G.	Deputy Governor (appointed on 7 May 2020)
	Mr. Gan-Ochir D.	Chief Economist
	Mrs. Gantuya B.	Legal advisor to the Governor
	Mr. Bayardavaa B.	Director General, Monetary Policy Department
	Mr. Enkhjin A.	Director General, Reserve Management Financial Markets Department
	Mr. Batsaikhan N.	Director General, Supervision Department
	Mrs. Sarantsetseg R.	Director General, Banknote Department)
	Mrs. Ayush D.	Director General, Legal Department
	Mr. Batdavaa B.	Director General, Research and Statistics Department
	Mr. Anar E.	Director General, Payment Systems Department
	Mrs. Amarsaikhan T.	Director General, Internal Audit Department
	Mr. Batkhuyag J.	Director General, General Management Department
	Mr. Garid Ts.	Director General, Finance and Accounting Department
	Mrs. Bayanzul D.	Director General, Risk Management Unit
	Mr. Dovchinbazar D.	Director General, Information Technology Department
REGISTERED ADDRESS:	Bank of Mongolia Building Baga Toiruu-3, 15160 Ulaanbaatar-46, Mongolia	
AUDITORS:	Ernst & Young Mongolia Audit LLC Certified Public Accountants	

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

STATEMENT BY THE BOARD OF DIRECTORS

Board of Directors is responsible for the preparation of the financial statements of Bank of Mongolia (the "Bank"). We do hereby state that, in our opinion, the accompanying financial statements set out between pages 6 and 76 presents fairly, in all material respects, the financial position of the Bank as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

The Board of Directors has the responsibility for ensuring that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank and which enables it to ensure that the financial statements comply with the requirements set out in Note 2 thereto.

The Board of Directors also has a general responsibility for taking such steps which are reasonably open to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Board of Directors considers that, in preparing the financial statements the appropriate policies have been used, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed.

Signed on behalf of the Board of Directors:

Lkhagvasuren Byadran
Governor

Date: 22 May 2020

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

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ey.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bank of Mongolia

Qualified Opinion

We have audited the financial statements of Bank of Mongolia (the "Bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As disclosed in note 23 to the financial statements, the treasury fund as at 31 December 2019 included coins with carrying a amount of MNT 916,278 million (2018: MNT 837,376 million). The coins primarily consisted of silver coins originally issued in 1925 by the then central bank of which the Bank of Mongolia is a successor (the "Coins").

According to the Treasury Fund Law, the Bank has the right to approve treasury assets to be included in the treasury fund and according to the Bank's internal policy and procedures, qualifying assets are eligible to be recognised as treasury assets upon the approval of the Governor of the Bank after satisfying certain procedures, including:

- obtaining a certificate from the "Historical and cultural heritage grading and evaluation committee" which operates under the Cultural Administration Office depending on importance of an individual item;
- obtaining the gemstone and precious metal certification approved by a respected laboratory; and
- obtaining a specialist reference letter certifying the historical and cultural importance of the item, such as the Treasury Fund Internal committee's opinion, a research paper or other supporting document.

We were unable to obtain sufficient and appropriate audit evidence to support that the Coins have been appropriately approved as treasury assets according to the Bank's internal policy and procedures, and therefore, we were unable to determine whether the Coins satisfy the required laws and regulations to be classified and accounted for as treasury assets included in the treasury fund. Consequently, we were unable to determine whether the Coins amounting to MNT 916,278 million as at 31 December 2019 (2018: MNT 837,376 million) are appropriately classified as treasury assets included in the treasury fund and whether the revaluation surplus amounting to MNT 914,539 million and MNT 835,637 million arising on their revaluation to fair value should have been recognised as other reserves within the Bank's equity as at 31 December 2019 and its opening balance as at 1 January 2019 as at 31 December 2018, respectively.

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 Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Management is responsible for the preparation of the financial statements in accordance with the 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.

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the Board of Directors of Bank of Mongolia

Responsibilities of Management and Those Charged with Governance for the Financial Statements (Cont'd)

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.

The Board of Directors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

We communicate with the Board of Directors 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.

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

Building a better working world

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the Board of Directors of Bank of Mongolia

Other Matter

The financial statements of the Bank for the year ended 31 December 2018 were audited by another auditor who expressed a modified opinion in respect of the treasury fund on those financial statements on 29 March 2019.

Our report is made solely to the Board of Directors of the Bank, as a body, in connection with the audit requested by the Board of Directors in accordance with Article 40 of Central Bank Law 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: 22 May 2020

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

BANK OF MONGOLIA
STATEMENT OF PROFIT LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 MNT'million	2018 MNT'million
Interest and similar income	6	724,318	517,004
Interest and similar expense	7	(1,182,320)	(921,433)
Net interest expense		**(458,002)**	**(404,429)**
Net gains from trading of gold and precious metals	8	499,822	182,883
Net losses from derivative financial instruments	9	(227,872)	(33,462)
Net gains on foreign currencies exchange	10	85,335	136,460
Credit loss expense/(reversal)	11	(14,521)	75,588
Net losses from disposal of financial investments in debt securities	12	(3,833)	(9,641)
Net gains from trading of financial investments in debt securities		4,604	6,831
Fair value (losses)/gains on promissory notes	13	(88,524)	73,621
Other operating income	14	28,847	22,281
Administrative and other operating expenses	15	(55,735)	(41,725)
(Loss)/profit for the year		**(229,879)**	**8,407**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
- Gains/(loss) on fair value change of investment securities at FVOCI	34	66,702	(6,587)
- Gains reclassified to the profit or loss upon disposal of investment securities at FVOCI	34	3,833	9,641
Items that will not be reclassified to profit or loss:			
- Revaluation surplus for premises and equipment	34	–	18,436
- Revaluation surplus for treasury fund	34	137,035	924,729
Other comprehensive income for the year		**207,570**	**946,219**
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(22,309)**	**954,626**

Approved for issue and signed on behalf of the Board of Directors:

Lkhagvasuren B.
Governor, Bank of Mongolia

Garid Ts.
Director of Finance and
Accounting Department

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

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

BANK OF MONGOLIA
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 MNT'million	2018 MNT'million
ASSETS			
Cash on hand	16	214,244	72,027
Due from foreign financial institutions	17	4,458,508	2,868,239
Loans to local banks	18	442,918	442,293
Investments in debt securities	19	3,873,142	4,677,189
Investments in equity securities	20	11,734	11,734
Reverse repurchase agreements	21	3,254,437	2,463,612
Gold bullion and precious metals	22	3,108,684	2,185,657
Treasury fund	23	1,068,860	931,241
Derivative financial instruments	24	260,778	199,657
Government securities	25	134,028	64,331
Other assets	26	492,322	848,790
Premises, equipment and intangible assets	27	94,149	66,451
Assets held for sale		1,003	4,144
TOTAL ASSETS		**17,414,807**	**14,835,365**
LIABILITIES			
Cash in circulation	28	897,417	968,618
Central bank bills	29	4,629,293	5,005,515
Liabilities due to government organizations	30	2,201,585	1,130,107
Deposits from local banks	31	6,038,704	4,215,585
Derivative financial instruments	24	545,040	368,710
Liabilities due to foreign parties	32	4,969,684	4,906,130
Other liabilities	33	31,388	116,695
TOTAL LIABILITIES		**19,313,111**	**16,711,360**
EQUITY			
Charter capital	34	60,000	60,000
Accumulated deficit		(3,698,110)	(3,071,835)
Other reserves	34	1,739,806	1,135,840
NET DEFICIENCY IN ASSETS		**(1,898,304)**	**(1,875,995)**
TOTAL LIABILITIES AND EQUITY		**17,414,807**	**14,835,365**

Approved for issue and signed on behalf of the Board of Directors:

Lkhagvasuren B.
Governor, Bank of Mongolia

Garid Ts.
Director of Finance and
Accounting Department

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

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

BANK OF MONGOLIA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Charter capital MNT'mil (Note 34)	Other reserves MNT'mil (Note 34)	Accumulated deficit MNT'mil (Note 34)	Net deficiency in assets MNT'mil
At 1 January 2018	**5,000**	**18,375**	**(2,853,996)**	**(2,830,621)**
Total comprehensive income for the year	–	946,219	8,407	954,626
Allocation to charter capital from accumulated deficit	55,000	–	(55,000)	–
Transfer from accumulated deficit	–	171,246	(171,246)	–
At 31 December 2018 and 1 January 2019	**60,000**	**1,135,840**	**(3,071,835)**	**(1,875,995)**
Total comprehensive income for the year	–	207,570	(229,879)	(22,309)
Transfer from accumulated deficit	–	396,396	(396,396)	–
At 31 December 2019	**60,000**	**1,739,806**	**(3,698,110)**	**(1,898,304)**

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

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

BANK OF MONGOLIA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 MNT'million	2018 MNT'million
Cash flows from operating activities			
(Loss)/profit for the year		**(229,879)**	**8,407**
Adjustments to:			
Fair value (losses)/gains on promissory notes	13	88,524	(73,621)
Unrealized gains from revaluation of monetary metals, net	8	(382,855)	(164,176)
Net losses/(gains) from derivative financial instruments	9	136,512	(84,985)
Net translation gains in foreign currencies	10	(13,541)	(7,070)
Loss on revaluation of premises and equipment	15	–	411
Depreciation of premises, equipment and intangible assets	15	4,793	3,077
Loss on disposal of asset held for sale	15	1,144	–
Loss on property and equipment written off and disposal	15	70	4
Credit loss expense/(reversal)	11	14,521	(75,588)
Interest income	6	(724,318)	(517,004)
Interest expense	7	1,182,320	921,433
Cash flows generated from operating activities before changes in operating assets and liabilities		**77,291**	**10,888**
Changes in operating assets and liabilities:			
Net increase in gold bullion and precious metals		(540,172)	(1,482,533)
Net increase in treasury fund		(584)	(1,253)
Net (increase)/decrease in reverse repurchase agreements		(783,553)	626,577
Net (increase)/decrease in loans to local banks		(2,928)	415,754
Net decrease/(increase) in debt instrument		164,877	(300,812)
Net increase in government securities		–	(6,265)
Net decrease in other assets		262,037	38,678
Net (decrease)/increase in central bank bills		(386,102)	1,542,376
Net increase/(decrease) in liabilities due to government organizations		1,041,240	(811,450)
Net increase in deposits of local banks		1,732,796	965,987
Net (decrease)/increase in other liabilities		(85,783)	88,151
Net cash generated from operating activities before interest		**1,479,119**	**1,086,098**
Interest received		664,423	300,870
Interest paid		(1,150,735)	(893,446)
Net cash flow generated from operating activities		**992,807**	**493,522**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets	27	(32,619)	(17,438)
Proceeds from disposal of property and equipment		58	566
Proceeds from disposal of asset held for sale		2,154	–
Acquisition of financial instruments at FVOCI and long term debt instruments at amortised cost		(2,943,376)	(4,633,328)
Proceeds from sale of financial instruments at FVOCI and long term debt instruments at amortised cost		3,635,984	3,640,586
Proceeds from government securities/repayments		–	103,535

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

	Notes	2019 MNT'million	2018 MNT'million
Net cash flows generated/(used) in investing activities		**662,201**	**(906,079)**
Cash flows from financing activities			
(Decrease)/increase of cash in circulation	28	(71,201)	62,222
Net decrease in liabilities due to foreign parties*		(1)	(684)
Net cash (used in)/generated from financing activities		**(71,202)**	**61,538**
Effect of exchange rate changes on cash and cash equivalents		148,533	78,276
Net increase/(decrease) in cash and cash equivalents		**1,732,339**	**(272,743)**
Cash and cash equivalents at the beginning of year		2,940,241	3,212,984
Cash and cash equivalents at the end of the year	16	**4,672,580**	**2,940,241**

Changes in liabilities arising from financing activities:

* All changes in liabilities arising from financing activities are non-cash changes, including interest accrual of MNT 92,043 million (2018: MNT 98,433 million) and unrealized loss on translation to foreign currency amounting MNT 67,552 million (2018: MNT 176,555 million) on liabilities due to foreign parties, namely financing from the People's Bank of China, during the year ended 31 December 2019.

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

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

1. INTRODUCTION AND OPERATING ENVIRONMENT

Introduction. The Bank of Mongolia (the "Bank") is the central bank of Mongolia and operates in accordance with the constitution of Mongolia, the Law on Central Bank (Bank of Mongolia), and other laws of Mongolia. The Bank was established under the resolution of the Government of Mongolia dated 2 June 1924.

All operations of the Bank are conducted in Mongolia. The Bank system includes 17 regional offices throughout Mongolia and its representative office in London, England.

In accordance with the legislation, the primary function of the Bank is ensuring the stability of the national currency of Mongolia and to promote a balanced and sustained development of the national economy, through maintaining stability of finance markets and banking system.

The Bank does not aim to earn profits. The financial results of the Bank's activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the Bank as a special central government authority.

In accordance with the Law on Central Bank ("Law"), the main functions of the Bank are as follows:

- issue of national currency of Mongolia and organization of its circulation;
- formulation and implementation of monetary policy by regulating money supply in the economy;
- acting as depository of the Government of Mongolia (the "Government" or the "State");
- exercising banking regulation and supervision;
- organization of interbank payments and settlements;
- holding and management of the State's reserves of foreign currency;
- acting as a lender of the last resort for banks and organizing a system of refinancing;
- representing Mongolia in other central banks, international banks and other credit institutions where co-operation is maintained between the central banks;
- exercising other functions in financial and credit areas within the competence defined by the Law.

According to the Law, the Bank provides loans to banks to support their liquidity, buys and sells securities in the secondary market, buys and sells foreign currency valuables, precious metals, sells commemorative coins made of precious and non-precious metals in the domestic and foreign markets, performs operations of servicing of the Government debt in respect of placement of Government securities, their redemption and interest payments, maintains accounts of the Government and other government institutions, including accounts of the Ministry of Finance (fiscal agent of the Government of Mongolia), accounts of international organizations and conducts other operations necessary for the performance of its functions.

The charter capital of the Bank is fully owned by the State of Mongolia. In accordance with the Law, the main task of the Board of Directors is to develop principles of monetary policy and exercise control over implementation of the monetary policy. In addition, the Governor of Bank approves annually the Bank budget of income and expenditure for the next year, approves annual financial statements of the Bank, report on fulfilment of the Bank budget of income and expenditure and distribution of profit for the reporting year, as well as performs other functions according to its authority defined by the Mongolian legislation.

Registered address and place of business. The Bank's registered address is Baga Toiruu 3, 15160, Ulaanbaatar 46, Mongolia.

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with an authorisation of the Board members on 22 May 2020.

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

2. FINANCIAL REPORTING FRAMEWORK AND BASIS FOR PREPARATION AND PRESENTATION

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

These financial statements have been prepared on a historical cost basis, except for debt and equity instruments, and government securities at fair value though other comprehensive income, financial assets at fair value through profit loss, gold bullion and precious metals, derivative financial instruments, treasury fund and properties that have been measured at fair value.

Presentation currency. These financial statements are presented in Mongolian Tugriks ("MNT") the currency of the primary economic environment in which the Bank operates and the Bank's functional currency.

Presentation of financial statements. The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non–current) is presented in Note 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 and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of 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.

Going concern. Management prepared these financial statements on a going concern basis. As of 31 December 2019, the Bank has recorded net deficiency in assets and net current liabilities. Management believes that there is no risk that the Bank will not be able to continue as a going concern in foreseeable future as the Bank is the issuer of national currency, and therefore, the Bank is not exposed to MNT liquidity risk. Please also refer to Note 40 on capital management.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Bank has not early adopted.

New and amended standards and interpretations

• IFRS 16	*Leases*
• IFRIC Interpretation 23	*Uncertainty over Income Tax Treatment*
• Amendments to IFRS 9	*Prepayment Features in Negative Compensation*
• Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
• Annual Improvements (2015-2017 cycle)	*Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income taxes, IAS 23 Borrowing costs*
• Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D.)

IFRS 16, Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from previous accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Bank adopted IFRS 16 using the modified retrospective approach, with the date of initial application of 1 January 2019.

The adoption of IFRS 16 did not result in significant impact on the amounts reported on the Bank's financial statements given that the Bank entered into only one lease agreement as a lessor.

IFRIC-Int 23, Uncertainty over Income Taxes Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

There is no impact from the interpretation as the Bank is exempted from income tax according to Corporate income tax law of Mongolia.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on financial statements of the Bank.***Annual Improvements 2015-2017 Cycle (issued in December 2017)***

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D.)

These improvements include:

• *IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. The Bank does not have any effect on its financial statements.

• *IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. Since the Bank's current practice is in line with these amendments, the Bank does not have any effect on its financial statements.

<u>Standards issued but not yet effective</u>

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

• Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [3]
• IFRS 17	*Insurance Contracts* [2]
• Amendments to IAS 1 and IAS 8	*Definition of Material* [1]
• Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform* [1]
• Amendments to References to the Conceptual Framework in IFRS Standards	*Conceptual Framework* [1]
• Amendments to IFRS 3	*Definition of a Business* [1]

1 *Effective for annual periods beginning on or after 1 January 2020*

2 *Effective for annual periods beginning on or after 1 January 2021*

3 *The effective date of this amendment is indefinitely postponed by IASB, but an entity that early adopts the amendments must apply them prospectively.*

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). 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. IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. IFRS 17 is not expected to have a significant impact on Bank's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D.)

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments to the definition of material is not expected to have a significant impact on the Bank's financial statements.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The functional currency of the Bank is the national currency of the primary economic environment, in which the Bank operates. The functional and presentation currency of the Bank is the national currency of the Mongolia, Mongolian Tugrik (MNT).

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Tugrik at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of Tugrik, are recognised in profit or loss for the year (as foreign exchange translation gains less losses).

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Financial instruments – key measurement terms

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities, which are quoted in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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

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

The effective interest method ("EIR") is a method of allocating interest income or interest expense over the relevant period to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The EIR is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The EIR discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of recognition. Financial instruments are recognised in the Bank's statement of financial position when 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Financial instruments – initial recognition and subsequent measurement (cont'd.)

Initial measurement of financial instruments. The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. All financial instruments are measured initially at their fair value including transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss ("FVPL"). While financial instruments at FVPL are recognised at its fair value and any transaction costs are recognised in profit or loss.

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

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 is different to the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in profit or loss when the inputs become observable or when the instrument is derecognized.

i) Financial Assets

Classification and measurement categories. 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 and FVPL. The classification and subsequent measurement of debt financial assets depends on:

(i) the Bank's business model for managing the related assets portfolio and

(ii) the cash flow characteristics of the asset.

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

Business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is:

(i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or

(ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or,

(iii) if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Refer to Note 39 for classification of the financial assets based on the Bank's business model assessment for its financial assets.

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

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

Reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects:

(i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes,

(ii) time value of money and

(iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition as described below:

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL").
- Stage 2: If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").
- Stage 3: If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

The Bank's definition of credit impaired assets and definition of default is explained in Note 37. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

For the purpose of measurement of expected credit losses, the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 37 provides information about inputs, assumptions and estimation techniques used in measuring ECL model.

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

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred.

The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

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

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

ii. Financial Liabilities

Measurement categories. Financial liabilities are classified as subsequently measured at AC, except for

(i) Financial liabilities at FVPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and

(ii) Financial guarantee contracts and loan commitments.

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

Cash and cash equivalents

For the purposes of reporting cash flows reflecting changes in both foreign and domestic liquidity, cash and cash equivalents include items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include financial assets, which are on demand or with original maturities of less than three months and which are available for use at short notice, as well as demand deposits of government organizations and local banks, denominated in local currency, refer to Note 16. Financial assets that cannot be freely converted into cash due to insufficient liquidity or due to restrictions on their use are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI using Effective Interest method, and (ii) they are not designated at FVPL.

Gold bullion and precious metals

Gold bullion consists of the stocks of gold bars of international standard held in foreign banks. Gold bullion represents a part of international reserves. Gold bullion is recorded in physical weight in troy ounces and is valued in Tugriks at the official exchange rate of the Bank. The official exchange rate is calculated based on information on gold prices determined (fixed) by participants of the London Bullion Market Association in US dollars translated into MNT at the Bank official MNT/US dollar exchange rate. Apart from holding gold as gold bullion, the Bank purchases unrefined gold and silver from producers and companies in Mongolia and trades in gold and silver (refer to Note 22).

Gold bullion and silver bars of international standard are measured in the statement of financial position at their fair value and revaluation is performed daily. The fair value is determined by taking into consideration the market value of gold and silver. Revaluation gain or loss is recognised in the profit or loss. Annually, unrealised gain or loss on fair value changes is transferred from the accumulated deficit to "Revaluation reserve for gold bullion and foreign exchange" within other reserves in equity (refer to Note 34). Other precious metals including commemorative coins and unrefined gold and silver are recognised as inventory and carried at lower of cost and net realizable value.

Treasury fund

A Law on State Treasury Fund was first issued in 1994. According to the law, "Treasure" is defined as precious metal and gemstones in any condition such as raw materials, alloys, chemical compounds, products, historical and cultural monuments. The Treasury fund comprises of main fund and operational fund.

Main fund includes items with extraordinary cultural and historical value listed in the "Historical, cultural and inherited valuables" approved by the Parliament. Items in main fund are sub-categorized as "prohibited for sale" and "salable with pre-approval".

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Operational fund includes refined and non-refined precious metal for the purpose of research, medical treatment, and refinery production, coins made of the precious metal, gemstones, pearl and other items that are internally approved as treasury assets in accordance with the Bank's "Treasury Fund Operation Procedure" and as approved by the Governor of the Bank.

According to the Treasury Fund Operation Procedure, qualifying treasury asset shall be supported by:

- Certificate from the "Historical and cultural heritage grading and evaluation committee" who operates under the Cultural Administration Office depending on importance of an individual item;
- Gemstone and precious metals certification/report by certified laboratory;
- Specialist's reference letter certifying the historical and cultural importance of the item, Treasury Fund Internal committee's opinion, research paper and other supporting document.

Treasury assets are initially recorded at cost. Subsequent to initial recognition, treasury assets are stated at fair value less any accumulated impairment losses. Treasury assets are subject to regular revaluation once in a five (5) year, or when there is a strong indicator that the fair value of the asset differs materially from its carrying amount, to ensure that the fair value of the revalued assets do not differ materially from their carrying amount.

Any revaluation surplus is recorded in other comprehensive income and hence credited to "Revaluation reserve for treasury fund" in equity, except to the extent that it reverses a revaluation decrease of the same asset previously charged to profit or loss account, in which case, the increase is recognised in the profit or loss account. A revaluation deficit is recognised in the profit or loss account, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings. Refer to Note 38 for fair value disclosure.

Due from foreign financial institutions

Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVPL.

Loans and other receivables due from banks and other borrowers

Loans to banks and other borrowers (such as Ministry of Finance, corporate entities etc.) are recorded when the Bank advances money to originate an unquoted non-derivative receivable from a counterparty bank or other borrower due on fixed or determinable dates and has no intention of trading the receivable.

These items are classified as AC based on the business model and the cash flow characteristics as the loans are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVPL. Impairment allowances are determined based on the forward-looking ECL models. Notes 37 and 18 provide information about inputs, assumptions and estimation techniques used in measuring ECL model.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

In case of loans and other receivables issued below market rate, loss on initial recognition is not recognised, if related receivables are considered instruments of principal market as defined by IFRS 13 requirements. In case of loans and other receivables issued below market rate that do not meet definition of principal market, loss on initial recognition is recognised in profit or loss account. Loans and other receivables meet definition of principal market when the substance of related transactions relates to the Bank's function of the regulator and of protecting national currency and economy (e.g. performing monetary policy operations, stabilizing inflation and stimulating economic growth, ensuring stability of Mongolian banking sector etc.)

Sale and repurchase agreements and lending of securities

Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as repurchase receivables.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the bank are recorded as due from foreign financial institutions or loans to local banks, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements, using the effective interest method. Based on classification of securities sold under the sale and repurchase agreements, the Bank classifies repurchase agreements into AC.

Investments in debt securities

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

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

Management reclassified government securities that were measured at amortised cost as at 31 December 2018 to FVOCI in 2019 due to change in business model of "hold to collect" to "hold to collect and sell".

Investments in equity securities

Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Bank. Investments in equity securities are measured at FVOCI as these investments are held for strategic purposes other than solely to generate investment returns. Fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Derivative financial instruments

Derivative financial instruments primarily include foreign exchange contracts such as foreign currency swaps and cross currency interest rate swaps, entered into with local banks. Derivative financial instruments represent financial instruments at fair value through profit or loss and are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Bank does not apply hedge accounting.

Other assets

Other assets mainly consist of receivables and prepayments. Receivables are accounted for on an accruals basis and are carried at amortised cost except for receivables from promissory notes. Receivables are recorded when due under the agreement. Prepayments are recorded on the payment date and are charged to profit loss for the period when the services are provided. Impairment allowances for receivables are determined based on the forward-looking ECL models. Note 37 provides information about inputs, assumptions and estimation techniques used in measuring ECL model.

Receivables from promissory notes are carried at FVPL. Subsequent measurement at fair value applies discounted cash flow approach at market rate of each reporting period. The market rate for promissory notes was considered to be the Bank's policy rate plus counterparty credit risk.

Premises and equipment

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

Premises owned by the Bank are initially measured at cost. Premises are subject to regular revaluations, with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to accumulated deficit or retained earnings when the surplus is realised.

Equipment owned by the Bank is stated at cost less depreciation and provision for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

	Useful lives in years
Building/Premises	6 – 60 years
Office and computer equipment	3 – 20 years

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

Intangible assets

The Bank's intangible assets have definite useful life and primarily include capitalised computer software licenses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives of 4 years.

Cash in circulation

The amount of banknotes and coins in circulation represents the nominal value of banknotes and coins that can be used as payment instruments and were issued into circulation by the Bank after the introduction of Tugriks into circulation in September 1993. The banknotes and coins in circulation are recorded as a liability at their nominal value when cash is issued by the Bank to banks and clients of the Bank. Cash in national currency held in the Bank's vaults and cash offices is not included in banknotes and coins in circulation.

Central bank bills

Central bank bills issued by the Bank are initially recorded at fair value and subsequently are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Liabilities due to government organizations

Accounts of the Government and other government institutions are non-derivative liabilities to the Government or other customers and are carried at amortised cost using effective interest method. Liabilities due to government organizations mostly relate to long-term loans obtained from the Ministry of Finance, which relate to programmes financed by the International Monetary Fund (IMF), Government of Germany (KfW) and Asian Development Bank (ADB). Refer to Note 30.

Liabilities due to foreign parties

Liabilities due to foreign parties are initially recorded at fair value and subsequently are measured at amortised cost using effective interest method. Liabilities due to foreign parties mostly relate to loan obtained from People's Bank of China, (central bank of China, "PBC"). Refer to Note 32.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Deposits from local banks

Accounts of banks are recorded when money is advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Provisions for liabilities and charges

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

Operations with International Monetary Fund

As a result of the Bank's role in relationship between Mongolia and IMF, the Bank enters into operations with IMF. IMF related balances, which meet definition of assets and liabilities under IFRS Framework, are recognised in the financial statements of Bank. The Bank does not recognise in its financial statements IMF related balances, which do not meet definition of assets and liabilities under IFRS Framework.

IMF related assets and liabilities of the Bank

The IMF asset balances recognised in these financial statements include holdings of Special Drawing Rights (SDR), refer to Note 17. Liabilities due to the IMF include liabilities for allocation of SDRs. Refer to Note 32.

Assets and liabilities denominated in SDRs are translated into Tugriks at the Bank's official exchange rate of Tugriks to SDR at the reporting date. The official exchange rate of Tugriks to SDR is calculated based on information on the exchange rate of SDR to USD set by the IMF and the Bank's official MNT/USD exchange rate at the reporting date.

IMF related balances of Government of Mongolia

Certain IMF related balances do not meet definition of assets and liabilities under IFRS Framework, given that the Bank has no contractual rights and obligations with regard to purchases of related IMF funds. These include IMF quota contribution and Extended Fund Facility (EFF) arrangement loan from IMF. The Bank acts as a depository of the Government of Mongolia in the relationship of Mongolia with the IMF. The Ministry of Finance acts as the fiscal agent of Mongolia. Thus, claims of Mongolia on and liabilities to the IMF in respect of funds received from IMF (such as IMF quota subscription) are not recognised in the financial statements of the Bank, as they represent assets and liabilities of the Ministry of Finance.

IMF quota subscription. The quota balance is a special type asset, which represents Mongolia's subscription as a member of the IMF. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the Fund, the limits of access to the financial resources of the Fund and a participant's share in the allocation of SDRs, the Fund's unit of account. The major part of Mongolia's quota was paid in the form of non-interest-bearing promissory notes issued to the IMF by the Ministry of Finance, the remainder being credited to the IMF accounts No 1 and No 2. As at 31 December 2019, Mongolia's quota in the IMF amounted to SDR 72.3 million (2018: SDR 72.3 million). Given that quota subscription was paid through issue of promissory notes by the Ministry of Finance of Mongolia, these amounts represent assets of the Ministry of Finance of Mongolia.

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IMF securities issued. These securities represent IMF's holdings of Mongolia's currency and include promissory notes issued in settlement of quota as described above and holdings arising from use of IMF credit in case of promissory notes issued in settlement of purchase of IMF funds under Extended Fund Facility arrangement.

IMF accounts No. 1 and No. 2. IMF account No. 1 is used for IMF transactions including quota subscription payments, purchase and repurchase of funds. Account No. 2 is used for settlements with the IMF in Mongolian currency. Accounts No. 1 and No. 2 are MNT 673.3 million as of 31 December 2019 (2018: MNT 635.0 million).

Extended Fund Facility (EFF) arrangement

The Executive Board of the IMF approved a three-year extended arrangement under EFF for Mongolia in a total amount of SDR 314.5 million to support the country's economic reform program on 24 May 2017. The EFF arrangement represents loans granted to Mongolia by IMF under the EFF, which bear interest from 1.53% p.a. to 1.59% p.a. The funding was further transferred to relevant accounts opened within the Bank (e.g. accounts of the Ministry of Finance) according to memorandum of understanding between the Bank and Ministry of Finance (MOF) dated 25 May 2017.

The loans and repayments are denominated in SDR and the repayment is done by the Bank on behalf of MOF to IMF according to repayment schedule. As at 31 December 2019, liabilities due to MOF under EFF program was SDR 157.7 million, which is equivalent to MNT 594,794 million (2018: SDR 157.9 million, which is equivalent to MNT 578,771 million) with maturity of 3 years, disclosed in Note 30.

Charter capital and general reserve

Charter capital (fund) is classified as equity. Refer to Note 34.

General reserve. In accordance with the Law on Central Bank (Bank of Mongolia), at least 40% of the Bank's net income for the year shall be allocated to the general reserve, while the remaining amount (i.e. maximum 60% of net income) can be transferred to the State Budget account. General reserve includes only such portions of net income accumulated over years over which the Bank has full rights to utilise them. This reserve fund does not include amounts that were distributed to the State budget in the past or which can be distributed in the future, as these portions have been already transferred to the Government in respective years. There were no transfers in 2019 and 2018, as the Bank had accumulated loss in these years.

Other reserves. Other reserves consist of revaluation reserves for investment securities at FVOCI, premises, gold bullion and foreign exchange, and treasury fund. In accordance with its policies, the Bank transfers unrealised revaluation gains and losses on gold bullion and precious metals, previously recognised through profit or loss, to other reserves at the end of the year.

Credit related commitments

The Bank enters into credit related commitments, which include letters of credit and the arrangement with the People's Bank of China (central bank of China, "PBC"), which in substance represents a credit facility (line) provided by PBC in Yuan to the Bank and credit facility in MNT by the Bank to PBC (refer to Note 35).

At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition plus (ii) the amount of the loss allowance determined based on the expected credit loss model. In cases where the fees are charged periodically in respect of an outstanding undrawn commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Income and expense recognition

Interest income and expense are recorded for all debt instruments, other than those at FVPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVPL (promissory notes) calculated at nominal interest rate is presented within 'Gains less losses from financial assets at FVPL' line in profit or loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Expenses for money issuance

The Bank instructs to print its national currency denominated notes to manufacturer and prepayments associated with the banknotes and coins printed are within "Other assets" and charged to the Bank's expenses when produced banknotes and coins are transferred by printing companies to the Central Vault of the Bank.

Staff costs and related contributions

Wages, salaries and other salary related expenses (including paid annual leave and sick leave, bonuses, and non-monetary benefits) are recognised as an expense in the year, in which the associated services are rendered by the Bank's employees. 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. Short-term non-accumulating compensated absences such as sick leave are recognised when absences occur.

Employee benefits

Based on its internal regulations, the Bank allocates certain funds to the Social development fund, which is used for improving living and working conditions of the Bank's employees. These funds are used for payment of benefits, reimbursements, work performance remunerations of the Bank's employees, purchasing apartments to guarantee social welfare of employees and to help employees in need etc.

Employee benefits (cont'd.)

Management believes that Social Development Fund as of 31 December 2019 and 31 December 2018 is sufficient to cover these liabilities and short-term liabilities for which this fund is created and that amount of recognised liability for retirement benefits is not materially different from the amount of present value of the defined benefit obligation at the reporting date less adjustments for unrecognised actuarial gains or losses and past service costs.

Income taxes

In accordance with Corporate Income Tax Law of Mongolia, the Bank is exempted from income tax.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Transaction with related parties

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

a. A person or a close member of that person's family is related to a Bank if that person:

(i) has control or joint control of the Bank;

(ii) has significant influence over the Bank; or

(iii) is a member of the key management personnel of the Bank.

b. An entity is related to a Bank if any of the following conditions applies:

(i) The entity are members of the Government of Mongolia.

(ii) One entity is an associate or joint venture of the other entity.

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of the Bank. If the Bank is itself such a plan, the sponsoring employers are also related to Bank.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity.

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. All material transactions and balances with the related parties are disclosed in the relevant notes to the financial statements and the detail is presented in Note 36.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

5. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on financial assets. The measurement of impairment losses under IFRS 9 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 staging assessment
- 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
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios, economic inputs, 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.

Impairment losses on financial assets (cont'd.). The Bank estimates ECL for all debt instruments classified at AC and FVOCI and regularly reviews the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Fair value of financial derivatives. The Bank regularly enters into derivative contracts with mainly local banks for the purposes of increasing foreign currency flow, diminishing the growth of interest rates and the amount of foreign currency loans and creating foreign currency exchange risk mitigation framework. These derivatives are measured at fair value through profit or loss.

Starting the first quarter of 2014, the Bank participated in a long-term SWAP program with the local banks. The Bank has agreed long-term MNT/USD SWAPS ranging in maturity from 2 years to 5 years. The Bank started entering into a new cross currency interest rate SWAP arrangement with local banks since December 2017. The arrangement is to swap MNT/USD on regular basis based on interest rate formula with maturities ranging from 1 year to 8 years.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

5. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING (CONT'D.)

The forward price of both arrangements used in fair valuation technique is estimated by the Bank's Monetary Policy Department, using econometric method. There is no readily available market information on pricing of such long-term instruments. Management believes that forward rate estimated using econometric method gives more accurate rate than formula based approach using interest rate parity theory. Information about fair values of instruments valued using assumptions that are not based on observable market data is disclosed in Notes 38.

Management has considered whether gains or losses should arise on initial recognition of such instruments. As the transactions were entered into by willing market participants, management's judgement is that these instruments are at market rates and no initial recognition gains or losses should arise. In making this judgement management also considers that these instruments are a principal market segment.

Fair value of promissory notes. The Bank provided lending to corporate clients through the purchase of their promissory notes for the amount of MNT 350,000 million in 2014 and MNT 465,000 million in 2016 at interest rates at 21% p.a which have had an option to be decreased to 7-8% p.a in the case specified performance conditions were met. The promissory notes are measured at fair value through profit or loss.

Management estimates fair value of the promissory notes using discounted cashflow model. In the fair value estimation, following judgements have been applied based on available information:

- Probability of the future cashflow: Management has assessed the probability of the future cashflows based on counterparties' historical financial information and believes repayment of the promissory notes are able to be fully collected on time.
- Discount rate: The policy rate of the Bank increased by margin of 2%-14.5% per annum represents reasonable approximation of market rate on MNT funding in case of credit (counterparty) risk related to corporate entities, given the nature and size of their operations and interest coverage ratio.

Information about fair values of these promissory notes using assumptions that are not based on observable market data is disclosed in Notes 38.

Control over Deposit Insurance Corporation (DIC). Management applies judgement to determine whether the substance of the relationship between the Bank and DIC indicates whether DIC is controlled by the Bank or not. In making this judgement, management takes into account the following:

- power over the DIC;
- exposure, or rights, to variable returns from its involvement with the DIC; and ability to use its power over the DIC to affect the amount of the Bank' s returns. The Bank has power over DIC if it can direct the relevant activities of DIC. According to the Charter of DIC, the National Committee has seven members, and is chaired by the First Deputy Governor of the Bank. The remaining six members comprise of the following:
- State Secretary in charge of finance and budget issues;
- Standing Commissioner of the Mongolian Financial Regulatory Commission; Executive Director of DIC;

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5. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING (CONT'D.)

Control over Deposit Insurance Corporation (DIC) (cont'd.). Three members to be nominated by Governor of the Bank, Minister of Finance and Mongolian Bankers Association (an independent Association made up of local banks and financial institutions and does not include the Bank) and to be appointed by the joint decisions of the Governor of the Bank and Minister of Finance. All decisions concerning the activities of DIC must be approved by vote from each of the seven members of the National Committee and no member has any unilateral power to direct the activities of DIC. Despite the Bank having its First Deputy Governor chairing the National Committee, the fact that the Chairman does not have any unilateral power to direct the activities of DIC and that the Bank has limited influence in the appointment of the remaining three members of the National Committee sufficiently demonstrates that the Bank does not have control or influence over DIC. Therefore, management concluded that DIC should not be consolidated into these financial statements.

Control over banks under receivership. Management applies judgement to determine whether the substance of the relationship between the Bank and banks under receivership indicates whether these banks are controlled by the Bank or not. In making this judgement, management takes into account the following:

- the receiver is appointed by the Bank following the requirements of the Law;
- the receiver effectively acts in a fiduciary capacity and has narrow objective to wind up the bank and there are no any strategic decisions to be made;
- the receiver acts within the prescribed legal framework and the order of priority of liabilities is also set by the legislation, therefore the receiver cannot use its power specifically with the aim to influence benefits attributable to Bank of Mongolia;
- although Bank of Mongolia may issue loans to banks under receivership, these loans are provided effectively on behalf of the Government as it is the Government's responsibility under the Law to guarantee repayment of customer deposits; therefore Management believes that the benefits receivable by Bank of Mongolia from such loans will be ultimately in the form of Government bonds;
- further benefits received from receivership are limited with low variability.

Based on above, although Bank of Mongolia has power to govern activities of banks under receivership, it can not use that power to influence its own benefits as those benefits are independent from performance of banks under receivership. Therefore, management believes that these banks should not be consolidated into these financial statements.

Treasury fund

Recognition. The Bank is the sole body, which is entitled to run day to day operation of the treasury fund according to the Law on State Treasury Fund. The treasury fund is comprised of heritage assets including historical, cultural, and inherited valuables and coins issued in 1925 etc. These are exhibited in the museum to the public, and the proceeds from tickets are recognised as other operating income in the profit or loss of the Bank. Reserve Management Financial Markets Department is responsible for management of the Fund's operation, maintenance, safeguard and security.

The Bank has performed detailed assessment, which includes obtaining legal advice from external constitutional lawyer in assisting on certain interpretations of the Law on State Treasury Fund and other relevant laws, which involves significant judgement. As a result of its assessment, management believes that the treasury fund should be recognised as assets of the Bank in its the statement of financial position. Key considerations include the economic benefit from the fund flows to the Bank and the fund is controlled by the Bank based on the Law on State Treasury Fund.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

5. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING (CONT'D.)

Measurement. As disclosed in Note 4 Summary of significant accounting policy, the Treasury fund is initially recorded at cost and subsequently measured at fair value less any accumulated impairment losses. Fair value is to be determined by internationally recognised valuation company. As at 31 December 2019, the treasury fund amounted to MNT1,068,860 million (2018: MNT931,241 million). The fair value hierarchy of the treasury assets are categorized as level 3 in which the valuations are based on unobservable market data which involves significant judgement. Refer to Note 38 for details of fair value measurement.

6. INTEREST AND SIMILAR INCOME

	2019	2018
	MNT'million	MNT'million
Interest income calculated using the effective interest method		
Debt securities at AC and at FVOCI	157,048	149,675
Reverse repurchase agreements	45,645	44,609
Due from foreign financial institutions	87,080	44,571
Loans to local banks	14,933	20,539
Government securities	11,732	15,760
	316,438	275,154
Other interest and similar income		
Other assets measured at FVTPL	46,247	103,376
Financial derivatives	361,633	138,474
	407,880	241,850
	724,318	517,004

7. INTEREST AND SIMILAR EXPENSE

	2019	2018
	MNT'million	MNT'million
Interest expense calculated using the effective interest method		
Central bank bills	514,534	453,313
Liabilities due to foreign parties	250,319	274,747
Fulfilment on mandatory reserve requirement to local banks (Note 31)	76,035	55,295
Liabilities due to government organisation	60,820	31,174
Deposits from local banks	11,870	7,360
Other interest expense	1,041	1,641
	914,619	823,530
Other interest and similar income		
Financial derivatives	267,701	97,903
	1,182,320	921,433

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8. NET GAINS FROM TRADING AND REVALUATION OF GOLD AND PRECIOUS METALS

	2019 MNT'million	2018 MNT'million
Gains on trading monetary precious metals, net	81,328	7,782
Gains from refining precious metals, net	35,639	10,925
Unrealized gains from revaluation of monetary metals, net	382,855	164,176
	499,822	182,883

9. NET LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS

	2019 MNT'million	2018 MNT'million
Realised losses on financial derivatives, net	(91,360)	(118,447)
Unrealised (losses)/gain on financial derivatives, net	(136,512)	84,985
	(227,872)	(33,462)

10. NET GAINS ON FOREIGN CURRENCIES EXCHANGE

	2019 MNT'million	2018 MNT'million
Realized translation gains on foreign currencies, net	71,705	127,105
Unrealized translation gains on foreign currencies, net	13,541	7,070
Foreign exchange trading gains	89	2,285
	85,335	136,460

11. CREDIT LOSS EXPENSE/(REVERSAL)

The table below shows the ECL charges/(reversal) on financial instruments for the year 2019 and 2018 recorded in profit or loss:

	2019 MNT'million	2018 MNT'million
Other financial assets (Note 26)	7,175	(74,029)
Investment in debt securities (Note 19)	5,298	1,409
Loan to local banks (Note 18)	2,726	(4,054)
Reverse repurchase agreement (Note 21)	74	–
Due from foreign financial institution (Note 17)	(141)	152
Government securities (Note 25)	(611)	934
	14,521	(75,588)

12. NET LOSSES FROM DISPOSAL OF FINANCIAL INVESTMENTS IN DEBT SECURITIES

Net losses from disposal of investments in debt securities represent realized losses recycled to profit or loss from revaluation reserve of investment in debt securities upon their disposal and maturity. Net losses from disposal of investments in debt securities during the year was MNT 3,833 million (2018: MNT 9,641 million).

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13. FAIR VALUE (LOSSES)/GAINS ON PROMISSORY NOTES

Fair value loss on promissory notes of MNT 88,524 million solely represents fair value change of promissory notes measured at FVPL for the year ended 31 December 2019 (2018: gains of MNT 73,621 million).

14. OTHER OPERATING INCOME

	2019 MNT'million	2018 MNT'million
Commission income	14,018	9,414
Penalty income	12,175	3,353
One-off interest income from local banks	–	1,053
Rental income from property and equipment	580	531
Other operating income	2,074	7,930
	28,847	22,281

15. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2019 MNT'million	2018 MNT'million
Staff cost	20,231	15,320
Cost of printing banknotes	11,527	7,232
Depreciation and amortisation of premises, equipment and intangible assets (Note 27)	4,793	3,077
Gold transportation and shipping expense	1,557	2,353
Telecommunication and utility expense	1,823	1,650
Loss on disposal of asset held for sale	1,144	–
Transportation and trip expenses	1,305	1,217
Security expenses	1,382	1,198
Membership and professional fees	658	1,154
Advertising expenses	1,054	1,062
System maintenance fee	860	943
Facility, arrangement, and refining fees related to gold financing	1,329	894
Training expenses	463	541
Maintenance of property and equipment	308	524
Legal service fees	813	439
Loss on revaluation of property and equipment	–	411
Loss on property and equipment written off and disposal	70	4
Other expenses	6,418	3,706
	55,735	41,725

16. CASH AND CASH EQUIVALENTS

	2019 MNT'million	2018 MNT'million
Cash on hand	214,244	72,027
Due from foreign financial institutions (Note 17)		
- Short term deposits in foreign currency	3,553,803	2,081,845
- Demand deposits	769,362	640,138
- Special drawing rights holdings	135,171	146,231
Total cash and cash equivalents for the statement of cash flow	4,672,580	2,940,241

The above balances are presented as cash and cash equivalents for the purposes of the Statement of Cash Flows.

17. DUE FROM FOREIGN FINANCIAL INSTITUTIONS

	2019 MNT'million	2018 MNT'million
Short term deposits in foreign currency	3,553,803	2,081,845
Demand deposits	769,362	640,138
Special drawing rights holdings	135,171	146,231
World Bank subscription	172	166
Other subscriptions	11	11
Gross carrying amount	4,458,519	2,868,391
Less: Allowance for credit loss	(11)	(152)
Net carrying amount	4,458,508	2,868,239

Short term deposits in foreign currency. This balance represents short-term time deposits with foreign central banks and other financial institutions, which are denominated in USD, GBP, and CNY with initial maturity periods up to 80 days (2018: 92 days).

Demand deposits. This balance represents current account deposits with foreign central banks and other financial institutions.

Special Drawing Rights Holdings. This balance represents Mongolia's holding of special drawing rights to supplement existing reserve assets related to the subscription to International Monetary Fund. As at 31 December 2019, the balance is SDR 35.8 million (2018: SDR 39.9 million) and is interest bearing.

World Bank subscription. This balance represents the deposits and quota at the World Bank, as part of the condition to be a member of the World Bank group. This amount is matched by a corresponding liability (see Note 32) and is non-interest bearing. This asset will never be impaired as it is placed in the central banks of OECD countries and other reputable international institutions.

Other subscriptions. This balance represents the subscription amount when Mongolia joined SWIFT network.

17. DUE FROM FOREIGN FINANCIAL INSTITUTIONS (CONT'D.)

Impairment allowance for due from foreign financial institutions

The following table contains an analysis by credit quality at 31 December 2019 and 2018 based on internal credit risk grades for the purpose of ECL measurement. All balances are included in Stage 1 as funds are placed in the central banks of OECD countries and other reputable international institutions. Refer to Note 37 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other banks balances.

	12 month PD range	Short term deposits in foreign currency MNT'mil	Demand deposits MNT'mil	Special drawing rights holdings MNT'mil	World Bank subscription MNT'mil	Other subscrip-tions MNT'mil	Total MNT'mil
31 December 2019							
Excellent	0%-0.06%	3,553,803	769,362	135,171	172	11	4,458,519
Gross carrying amount		**3,553,803**	**769,362**	**135,171**	**172**	**11**	**4,458,519**
(-) ECL allowance		–	(11)	–	–	–	(11)
Carrying amount		**3,553,803**	**769,351**	**135,171**	**172**	**11**	**4,458,508**
31 December 2018							
Excellent	0%-0.1%	2,081,845	640,138	146,231	166	11	2,868,391
Gross carrying amount		**2,081,845**	**640,138**	**146,231**	**166**	**11**	**2,868,391**
(-) ECL allowance		(19)	(131)	(2)	–	–	(152)
Carrying amount		**2,081,826**	**640,007**	**146,229**	**166**	**11**	**2,868,239**

Reconciliations of changes in the credit allowance for amount due from foreign financial institutions for 2019 and 2018 are as follows:

Credit allowance for ECL	**2019 MNT'million**	**2018 MNT'million**
1 January	152	–
Credit loss expense/(reversal) (Note 11)	(141)	152
At 31 December	11	152

Special drawing rights holdings in IMF, World Bank subscription and other subscriptions do not expose the Bank to credit risk as these are placed in the central banks of OECD countries and other reputable international institutions. None of these balances are collateralized. The geographical analysis, currency risk analysis, interest rate risk analysis, and maturity analysis are disclosed in Note 37.

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18. LOANS TO LOCAL BANKS

	2019 MNT'million	2018 MNT'million
Loans issued under Price Stabilization Program	442,104	436,781
Other loans	8,580	10,552
Gross carrying amount	450,684	447,333
Less: Allowance for credit loss	(7,766)	(5,040)
Total loans to local banks at AC	442,918	442,293

Loans issued under Price Stabilization Program

Starting from November 2012, Bank of Mongolia has issued loans to local banks for the purposes of further lending to local companies from selected industries as part of the Government Price Stabilization Program. These loans were issued under terms and conditions defined by a Government joint resolutions and the Bank has no discretion in defining the terms. In addition, decisions on participation of particular companies in the program are also approved by the Government and the companies selected are entitled to obtain loans, which are refinanced by the Bank, from any local bank

As a result, the Bank can advance funds to local banks as determined by Government of Mongolia, at advantageous rates at 0.89% per annum to 4% per annum. Management has considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are in accordance with the main function of central bank to formulate and to implement monetary policy by money supply in the economy and to stabilise inflation, management's judgement is that these loans represent principal market and no gain or loss should arise on initial recognition.

Under the Apartment Mortgage Funding Agreement signed by the Bank, the Government of Mongolia, Mongolian Mortgage Corporation (MIK) and local banks, the Bank receives Senior Residential Mortgage Backed Securities (Senior RMBS) bonds in settlement of the loans to local banks issued under the Price Stabilization Program.

Outstanding balance as at 31 December 2019 amounting to MNT 442,104 million (2018: MNT 436,782 million) represents mortgage loan financing under the Price Stabilization Program and the loans bear interest rate of 2% and 4% per annum.

Other loans

Loans in local currency. The loans in local currency included in "Other loans", consist of loans related to the programs of ADB in the amount of MNT 2,020 million (2018: MNT 1,491 million), Government of Germany through KFW in the amount of MNT 5,498 million (2018: MNT 7,533 million).

Loans related to ADB programs were disbursed to various local banks in Mongolia, for further lending to Mongolian enterprises. This funding was made available by ADB to create more job opportunities for the people of Mongolia. The loans bear interest at a rate of 7% per annum (2018: 7%-10% per annum) and the repayment terms for each disbursed loan vary according to the date of disbursement.

Loans disbursed to local banks for further lending to Mongolian enterprises to promote small and medium scale companies were made available under two separate I and II programs by the Government of Germany through KfW.

18. LOANS TO LOCAL BANKS (CONT'D.)

As per the loan agreement, the Bank has the right to automatically withdraw funds from the current accounts of the local banks with the Bank when the repayments are due.

Loans in foreign currency. The loans in foreign currency, included as part of "Other loans", consist of loans disbursed to local banks under the program of KfW to promote small and medium scale companies in the amount of MNT 290 million (2018: MNT 719 million) and loans for improving the local banks' systems and enhancing the capability of banking specialists under the program of ADB in the amount of MNT 772 million (2018: MNT 809 million).

Loans disbursed to local banks for further lending to Mongolian enterprises to promote small and medium scale companies were made available under two separate programs by the Government of Germany through KfW. The loans under both programs bear interest at a rate ranging from 1.25% to 1.75% per annum and are not backed by any security. The loans under both programs are disbursed through three local banks to the borrowers that meet the specific criteria set by KfW. Accordingly, the repayment terms for each disbursed loan vary according to the date of disbursement. As per loan agreement, the Bank has the right to automatically withdraw funds from the accounts of the local banks with the Bank when the repayments are due.

Loans for improving the local banks' software and enhancing the capability of banking specialists are provided by the Bank to local banks to finance the training conducted by DAI (Thailand) Limited Company in accordance with the agreement signed between Mongolia and the Asian Development Bank. Repayment period of this loan is 14 years.

Impairment allowance for loans to local banks

Allowances for impairment losses for debt instruments at amortised cost as at 31 December 2019 and 2018 are as follows:

Expected credit loss	Drawn exposure MNT'mil	Forward-looking PD	LGD	ECLs as part of loan balance MNT'mil
At 31 December 2019				
Stage 1	437,453	2.6% - 4.4%	25%	3,059
Stage 3	13,231	100%	38%	4,707
	450,684			7,766
At 31 December 2018				
Stage 1	447,333	0.2% - 4.6%	45%	5,040

The table below shows changes in the gross carrying amount and the corresponding ECLs. Details of the Banks's stage classification and methodology for calculating ECL are explained in Note 37.

	Stage 1 MNT'mil	Stage 2 MNT'mil	Stage 3 MNT'mil	Total MNT'mil
Gross carrying amount as at 1 January 2019	447,334	–	–	447,334
New assets originated or purchased	386,979	–	–	386,979
Assets derecognized or repaid	(383,629)	–	–	(383,629)
Transfer to stage 3	(13,231)	–	13,231	–
At 31 December 2019	437,453	–	13,231	450,684

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18. LOANS TO LOCAL BANKS (CONT'D.)

Gross carrying amount as at 1 January 2018	861,322	–	–	861,322
New assets originated or purchased	197,184	–	–	197,184
Assets derecognized or repaid	(611,173)	–	–	(611,173)
At 31 December 2018	447,333	–	–	447,333

	Stage 1 MNT'mil	Stage 3 MNT'mil	Total MNT'mil
ECL allowance as at 1 January 2019	5,040	–	5,040
Net charge during the year (Note 11)	2,726	–	2,726
Transfer to stage 3	(4,395)	4,395	–
Impact on ECL on transfer	(312)	312	–
At 31 December 2019	**3,059**	**4,707**	**7,766**
ECL allowance as at 1 January 2018	9,094	–	9,094
Net (reversal) during the year (Note 11)	(4,054)	–	(4,054)
At 31 December 2018	**5,040**	**–**	**5,040**

As disclosed in Note 37, majority of Mongolian local banks are rated by international rating agencies. The analysis was performed based on available rating assigned by international rating agencies. In case of unrated Mongolian local banks, the Bank considers financial conditions of related local banks based on the recent financial information, compliance with prudential ratios, and other information available for assessing credit quality of related assets.

For changes to inputs used for ECL estimations, please refer to Note 37.

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19. INVESTMENTS IN DEBT SECURITIES

	2019 MNT'million	2018 MNT'million
Debt securities at FVOCI:		
-RAMP Investment Account Assets	870,831	814,702
-Bonds issued by Bank for International Settlements	–	789,252
-US treasury bills	327,866	537,676
-BIS investment	136,676	–
-KfW bond	67,814	–
-European Investment Bank bond	10,910	–
-China government bond	35,746	113,770
Net carrying amount	1,449,843	2,255,400
Debt securities at AC:		
-Senior RMBS Bonds	2,380,404	2,378,773
-Development Bank securities	49,522	44,305
Gross carrying amount	2,429,926	2,423,078
Less: Allowance for credit loss	(6,627)	(1,289)
Net carrying amount	2,423,299	2,421,789
Total investments in debt securities	3,873,142	4,677,189

(a) Debt securities at FVOCI

Reserves Advisory and Management Program (RAMP) Investment Account Assets In order to improve and strengthen foreign currency management the Bank has been implementing World Bank's "Resource management improvement consulting and resource management" project since 2011.

As at 31 December 2019, the Investment Account Assets consist of cash balance in the amount of USD 0.32 million equivalent to MNT 864 million (2018: USD 0.29 million equivalent to MNT 770 million), and securities in the amount of USD 319 million equivalent to MNT 869,967 million (2018: USD 335 million equivalent to MNT 813,932 million). The custodian of the Investment Account Assets is the Federal Reserve Bank of New York.

US treasury bills. At the end of financial year, this investment account balance consisted of USD 120 million equivalent to MNT 327,866 million (2018: USD 203.4 million equivalent to MNT 537,676 million). Maturity of these bills range from 1 year to 2 year (2018: 2 to 3 years) with interest rate and yield of 1.125% to 2.75% per annum (2018: 0.9% to 2.75% per annum). These are not collateralized.

BIS investment. In order to improve and strengthen foreign currency management, the Bank has implemented BIS's "Resource management improvement consulting and resource management" project in 2019. As at 31 December 2019, the investment account balance is USD 50 million equivalent to MNT 136,676 million (2018: nil).

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

19. INVESTMENTS IN DEBT SECURITIES (CONT'D.)

China Government bond. the Bank has invested in China Government bond denominated in CNY issued by the People's Bank of China (PBoC) during the first quarter of 2018. The account balance as at 31 December 2019 consisted of CNY 91.4 million equivalent to MNT 35,746 million (2018: CNY 295 million equivalent to MNT 113,770 million). Maturity of these bonds are 2 years with interest rate and yield of 3.6% per annum (2018: 1 year to 3 years with interest rate and yield of 1.43% to 3.68% per annum). These are not collateralized.

Bonds issued by Bank for International Settlements (BIS) represent quoted debt securities and thus are measured at fair value, which is based on market price of the bonds. All of the bonds are of short-term nature with up to 94 days of maturity (2018: 94 days) and bear interest rate and yield of approximately 2.44% per annum (2018: 2.44% per annum). The Bank invested into these securities due to their low credit risk and high reputation of the BIS and it was fully repaid during 2019.

Credit risk grade of debt securities included in Investment Account Assets are excellent as per internal rating, ranged from Aa3 to Aaa based on Moody's ratings or equivalents of Standard and Poor's ratings and are at Stage 1. For more information, refer to Note 37.

Reconciliations of changes in the fair value and corresponding allowance for ECL by stage for debt instruments measured at FVOCI for 2019 and 2018 are as follows:

	2019		2018	
	Stage 1		Stage 1	
	Fair value MNT'million	ECL MNT'million	Fair value MNT'million	ECL MNT'million
1 January	2,255,400	120	811,416	–
New assets originated or purchased	2,630,433	–	4,083,304	120
Payments and assets derecognised	(3,491,616)	(40)	(2,891,666)	–
Changes in fair value (Note 34)	9,440	–	3,106	–
Accrued interest	(263)	–	2,054	–
Foreign exchange adjustments	46,449	–	247,186	–
At 31 December	1,449,843	80	2,255,400	120

(b) Debt securities at AC

Senior RMBS Bonds issued by MIK subsidiaries. The Bank signed the Residential Mortgage Funding Agreement - a three-way agreement with MIK and the local banks in Mongolia on 13 June 2013. Starting from 2016, the agreement was renewed and the government of Mongolia was included in this arrangement. The Bank receives the RMBS Senior Bonds issued by MIK to the local banks in settlement of its soft loans granted to the local banks under the Price Stabilization Program disclosed in Note 18. These bonds earn interest rate at 4.5% per annum and have a maturity of up to 20 years.

Development Bank securities. On 23 September 2015, the Bank purchased the Development Bank securities at total nominal amount of MNT 60,000 million with 6 years of maturity and 4% coupon rate and management has considered these were below market rate. The fair value of these securities at initial recognition was MNT 31,397 million. The difference between the nominal value of the Development Bank securities and their fair value totaling MNT 28,603 million was recognised as losses on initial recognition in profit or loss for the year ended 31 December 2015.

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19. INVESTMENTS IN DEBT SECURITIES (CONT'D.)

Coupon payments are paid semi-annually. The carrying value of the securities as at 31 December 2019 was MNT 49,522 million (2018: MNT 44,305 million).

The carrying amount of debt securities at AC as at 31 December 2019 and 2018 are included in Stage 1 and graded at "good" based on internal credit risk grades. It also represents the Bank's maximum exposure to credit risk. Refer to Note 37 for the description of credit risk grading system used by the Bank and the approach to ECL measurement.

Impairment allowance for investment in debt securities

The table below shows the ECL based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. Details of the Bank's internal grading system and impairment assessment and measurement approach are explained in Note 37.

31 December 2019	12-month PD range	Stage 1 MNT'mil	Stage 2 MNT'mil	Stage 3 MNT'mil	Total MNT'mil
Internal rating grade					
Excellent	0% - 0.26%	80	–	–	80
Good	2.57% - 4.42%	6,627	–	–	6,627
		6,707	–	–	6,707
31 December 2018					
Internal rating grade					
Excellent	0.003% - 0.04%	120	–	–	120
Good	3.25%	1,289	–	–	1,289
		1,409	–	–	1,409

ECL allowances for debt securities measured at FVOCI amounting to MNT 80 million (2018: MNT 120 million) has been included in movement of the respective other comprehensive income during the year.

Below table shows movement of the ECL allowances of the investment in debt securities for the year ended 31 December 2019 and 2018:

	2019 MNT'mil	2018 MNT'mil
At 1 January	1,409	-
Net charge during the year (Note 11)	5,298	1,409
At 31 December	**6,707**	**1,409**

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20. INVESTMENTS IN EQUITY SECURITIES

	2019 MNT'million	2018 MNT'million
Equity securities at FVOCI:		
Equity investment in MIK	5,139	5,139
Other equity investments	6,595	6,595
Net carrying amount	11,734	11,734

Equity investment in MIK. The Bank's equity investment of 421,241 shares (2.03% of total shares) was valued at MNT 5,139 million as at 31 December 2019 (2018: 421,241 shares recorded at fair value of MNT 5,139 million).

Other unquoted equity investments represent unquoted investments in International Investment Bank, International Bank of Economic Co-operation and Mongolian Banking Association that are recorded at fair value which management considers to approximate to its cost.

21. REVERSE REPURCHASE AGREEMENTS

	2019 MNT'million	2018 MNT'million
Federal Reserve Bank of New York	2,700,444	2,141,558
Local banks	554,067	322,054
Gross carrying amount	3,254,511	2,463,612
Less: Allowance for credit loss	(74)	–
Net carrying amount	3,254,437	2,463,612

Federal Reserve Bank of New York The Bank entered into Automatic Investment Program arrangement in respect of its deposit account held with the Federal Reserve Bank of New York. Under this program, amounts exceeding minimum balance of USD 250,000 are to be invested in Repurchase Agreement Pool ("repo pool") of the Federal Reserve Bank of New York.

As at 31 December 2019, the funds invested in repo pool amounted to USD 988 million equivalent to MNT 2,700,444 million (2018: USD 810 million equivalent to MNT 2,141,558 million). This investment has 2 days maturity (2018: 3 days) and carries interest rate of 1.45% per annum (2018: 2.43% per annum). Though related investments are effectively collateralized, there is no clear identification of securities purchased based on the investment program.

Local banks. Reverse repurchase agreements denominated in MNT represents long and short- term loans to local banks secured by Development bank of Mongolia bills and government securities.

As at 31 December 2019, overnight reverse repurchase agreements with local banks denominated in MNT amounted to MNT 494,291 million with two days of maturity and interest rate of 13% per annum are included in reverse repurchase agreement in local currency (2018: MNT 254,651 million with four days of maturity at interest rate of 13% per annum). This agreement is secured by government securities.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

21. REVERSE REPURCHASE AGREEMENTS (CONT'D.)

As at 31 December 2019, par value of the reverse repurchase agreements amount to MNT 65,000 million (2018: MNT 75,145) with maturity of 3 to 6 years (2018: 3 to 6 years) and bears interest rate of 7.5% per annum (2018: 7.5% per annum), and those are secured by bonds issued by Development bank of Mongolia. Carrying value of the agreements as at 31 December 2019 is MNT 59,776 million (2018: MNT 67,403 million).

The Bank entered into the reverse repurchase arrangement above mentioned in 2016 which the arrangement bear floating interest rate at policy rate minus 3% per annum until 30 September 2016 and 11 October 2016. When the rate became fixed at 7.5% per annum and management has considered these are below market and applied judgment based on pricing for similar types of transactions with unrelated parties and effective interest rate analysis and recognised a loss of MNT 23,426 million on initial recognition.

Impairment allowance for reverse repurchase agreements

These balances are considered to be in Stage 1 and the Federal Reserve Bank of New York and local banks were graded at "excellent" and "good", respectively as of 31 December 2019 and 31 December 2018, based on the internal credit risk grades. For more information, refer to Note 37.

31 December 2019	12-month PD range	Gross amount MNT'million	ECL MNT'million	Net carrying amount MNT'million
Internal rating grade				
Excellent	0%	2,700,444	–	2,700,444
Good	2.57%-4.42%	554,067	(74)	553,993
		3,254,511	(74)	3,254,437

As at 31 December 2018, the Bank concluded ECL for Reverse repurchase agreements to be insignificant.

22. GOLD BULLION AND PRECIOUS METALS

	2019 MNT'million	2018 MNT'million
At fair value		
Gold bullion	3,053,057	2,033,388
Silver	4,472	2,362
At cost		
Gold and silver purchased from miners	36,800	143,244
Gold in transit for refining	12,375	5,030
Commemorative coins	1,980	1,633
	3,108,684	2,185,657

Monetary gold and silver are mainly placed at Bank of England and Bank of Scotia Mocatta. Net unrealised gain from valuation of monetary metals were MNT 382,855 million (2018: MNT 164,176 million) as at 31 December 2019. Refer to Note 13.

Gold and silver purchased from miners represent non-refined non-monetary gold and silver that is purchased from local gold miners. Other precious metals including commemorative coins are recognised as inventory and carried at lower of cost and net realizable value.

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23. TREASURY FUND

	2019 MNT'million	2018 MNT'million
Main fund	145,063	86,346
Operational fund	923,797	844,895
	1,068,860	931,241

Below table shows the movement of the Treasury fund based on nature of the treasuries as at 31 December 2019 and 2018:

	Coins MNT'mil	Cultural valuables MNT'mil	Total MNT'mil
At 1 January 2018, at cost	**2,938**	**2,321**	**5,259**
Addition	10	1,243	1,253
Revaluation	835,691	89,038	924,729
At 31 December 2018 and 1 January 2019, at fair value	**838,639**	**92,602**	**931,241**
Addition	7	577	584
Revaluation	78,902	58,133	137,035
At 31 December 2019, at fair value	**917,548**	**151,312**	**1,068,860**

Treasury fund is comprised of heritage assets including historical, cultural and inherited valuables and coins issued in 1925.

Included in the coins as at 31 December 2019 are primarily silver and copper coins originally issued in 1925 by the then central bank of which the Bank of Mongolia is a successor with carrying amount of MNT916,278 million (2018: MNT837,376 million).

Starting from 2018, management has changed its accounting policy to fair value its treasury assets (please refer to Note 4 for details of accounting policy) and has engaged with an external valuation company “Make a Difference” LLC to revalue its treasury. Treasury assets were valued using direct comparable method and replication method. Direct comparable method is used by reference to market-based evidence including public and online auction houses, using comparable prices adjusted for specific market factors such as origin, condition, symbolical prestige, current possessor and uniqueness of the items.

Replication method is a cost approach, which provides value based on estimated current costs to reproduce property of equal quality, utility, and marketability as near as possible to the original items of nature, quality and age of material.

Refer to Note 38 for details of fair value measurement.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

24. 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	Notional amount	Fair value	
			Assets	Liability
Swaps	USD'mil	MNT'mil	MNT'mil	MNT'mil
2019	1,998	4,797,569	260,778	(545,040)
2018	1,876	4,936,887	199,655	(368,710)

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. Risk management strategy and how it is applied to manage risks disclosed in Note 37.

25. GOVERNMENT SECURITIES

	2019 MNT'million	2018 MNT'million
Government securities at AC	–	65,265
Less: Allowance for credit loss	–	(934)
Gross carrying amount	–	64,331
Government securities at FVOCI	134,028	–

Bank purchased government securities in accordance within the Government conducted "Sain" program with par value of MNT 453,712 million at coupon rate of 1.0% per annum to 3.0% per annum and maturity from 1 to 15 years in 2016 and management has considered these are below market. Management judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. The fair value of these securities at initial recognition was MNT 123,668 million and the Bank recognized a Day 1 loss of MNT 330,044 million to profit or loss in 2016 given that it has been considered below market securities under IAS 39 and effective interest rate was determined as around 18% per annum against the nominal interest rate.

Furthermore, Management reclassified the government securities that were measured at amortised cost as at 31 December 2018 to FVOCI in 2019 due to a change in business model from "hold to collect" to "hold to collect and sell" as they assessed that its business model of holding these securities has changed to achieve by both collecting contractual cash flows and selling the government securities whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

25. GOVERNMENT SECURITIES (CONT'D.)

Par value of outstanding government securities as at 31 December 2019 amounted to MNT 374,000 million at coupon rate of 1.0 % per annum and have maturity of 15 years. (2018: MNT 374,000 million at coupon rate of 1.0% per annum, maturity of 15 years). For the fair value disclosure, refer to Note 38.

All of the outstanding balance which represents the maximum exposure to credit risk as of 31 December 2019 and 2018 is included in Stage 1 and was graded as "good" based on credit risk grade. Refer to Note 37 for the description of credit risk grading system used by the Bank and the approach to ECL measurement.

ECL allowances for the government securities measured at FVOCI amounting to MNT 611 million has been included in movement of the respective other comprehensive income during the year. As at 31 December 2018, ECL allowance of MNT 934 million was provided for the government securities at AC.

None of the government securities are collateralized as at 31 December 2019 and 2018. For more information on related party transactions, refer to Note 36.

A reconciliation of changes in the fair value and gross carrying amount and corresponding allowance for ECL for debt instruments measured at FVOCI is as follows:

	Stage 1	
	Fair value MNT'million	**ECL MNT'million**
At 1 January 2019	65,265	934
New assets originated or purchased	7,668	–
Reversal of ECL	–	(611)
Changes in fair value	61,095	–
At 31 December 2019	134,028	323

26. OTHER ASSETS

	2019 MNT'million	**2018 MNT'million**
Other financial assets at AC		
Receivables from Deposit Insurance Corporation	149,092	193,710
Asset received from Anod Bank	58,965	60,615
Receivables from companies	58,111	56,352
Receivables from receivership of Capital bank	54,480	–
Claims on foreign financial institutions	23,898	23,106
Penalty receivable	–	3,353
	344,546	337,136
Less: Allowance for credit loss	(265,577)	(255,851)
	78,969	81,285
Other assets ***measured at FVPL***		
Promissory notes	394,621	748,656
Other non-financial ***assets at AC***		
Prepaid expenses	10,228	8,856
Other	8,504	9,993
	18,732	18,849
Total other assets	492,322	848,790

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

26. OTHER ASSETS (CONT'D.)

Receivables from Deposit Insurance Corporation (DIC). In 2013, the Bank issued loan to DIC in the amount of MNT 119,900 million with 0.5% interest per annum with maturity of 10 years with the sole purpose of ensuring stability of Mongolian banking. Based on contractual terms, this loan is due for the repayment on 30 September 2023 and interest repayments are made on an annual basis. On the same day, the Bank had additionally issued a short-term financial support to DIC in the amount of MNT 85,000 million with zero per annum in support of the Government's decision to acquire shares in State Bank LLC. As a result, DIC owns 75% of State Bank LLC. Based on the agreements, both loans are arranged to be repaid from the proceeds of the privatization of State Bank LLC and earnings related to State Bank LLC.

Management has considered whether gains or losses should arise on initial recognition of such instruments. As related lending was provided in accordance with the Bank's main function to ensure stability of Mongolian banking sector, act as a lender of the last resort for banks and to organise a system of refinancing, management's judgement is that related lending represents principal market. The carrying value of loans to DIC as at 31 December 2019 is MNT 43,185 million (2018: MNT 78,710 million).

Receivables from Deposit Insurance Corporation (DIC).

In 2014 and 2016 the loans were assessed under IAS 39 and were fully provided for impairment as it was concluded that high uncertainty of collection existed based on the stagnant process of State Bank privatization.

In May 2018, government session was held and "Privatization of state-owned companies/bank in 2018-2020" was supported to be introduced to the Parliament and it is expected to be approved in fall session of Parliament. Therefore, management reassessed the impairment provision with consideration of progresses occurred in 2018 and assessed the loan at Stage 3 with credit loss allowance of MNT 115,000 million which resulted in reversal of impairment provision at MNT 78,700 million in profit or loss for 2018. As no decision had been made by the Government session until the issuance date of this report, the management has assessed that the ECL allowance has no movement for the receivables of MNT 85,000 million. As for receivables of MNT 119,900 million with interest of 0.5% per annum, management estimated specific assessment on credit allowance for ECL which resulted in reversal of credit allowance amounting to MNT 9,093 million.

Following the occurrence of insured event, as stated by the Deposit Insurance law, due to bankruptcy of Capital Bank, and in accordance with "Loan payment fulfillment contract" as well as Transfer of Claim rights contract" between the Bank and Deposit Insurance Corporation, the receivables were decreased by the amount of insurance compensation or MNT 44,663 million during 2019.

Assets received from Anod Bank. The Bank received assets with carrying amount of MNT 73,662 million when Anod receivership was terminated in 2015 out of which, MNT 1,650 million and MNT 2,183 million were recovered in 2019 and 2018, respectively. The assets after recovery of MNT 58,965 million (2018: MNT 60,615 million) are fully provisioned. Under IFRS 9, the assets are assessed at Stage 3 with 100% of PD and LGD.

Receivables from Capital bank. Receivables from Capital bank include MNT 5,215 million clearing account receivable, MNT 4,602 million Mandatory reserve penalty receivable and MNT 44,663 million receivables in relation to DIC.

Receivables from companies. Receivables from other companies include receivables due from gold producing companies that have not fulfilled their obligations under the gold option contracts entered into with the Bank in prior years. These receivables amount to MNT 38,453 million (2018: MNT 37,179 million), are fully provisioned and are assessed at Stage 3 with 100% of PD and LGD as at 31 December 2019 and 2018.

26. OTHER ASSETS (CONT'D.)

Remaining balances consist of receivables from non-banking institutions amounting MNT 19,655 million as at 31 December 2019 (2018: MNT 19,173 million). All of these receivables have been fully provisioned in prior years and are considered at Stage 3 as well, with 100% of PD and LGD as at 31 December 2019 and 2018.

Claims on foreign financial institutions. Claims on foreign financial institutions are considered to be non-recoverable and was fully provisioned since the related foreign institutions were no longer operating. As at 31 December 2019 and 2018, the bank has assessed this asset at Stage 3 with 100% of PD and LGD.

Receivables related to promissory notes. Promissory notes represent promissory notes issued by local companies measured at FVPL with details as follows:

As at 31 December 2019, the Bank holds promissory notes issued by five (5) local companies and a local bank, which have a nominal value of MNT 470,000 million (2018: seven (7) companies and MNT 742,500 million). These notes have a maturity of 5 years to 6 years and earn interest at interest rates defined in related contracts. Most of these contracts specify higher initial interest rate, which can be reduced to below market level, if certain conditions are met. The Bank's management as well as their internal legal departments are of the view that these transactions with local companies do not violate any provisions under the Law on Central Bank and other related laws in Mongolia.

Refer to Note 13 for the disclosure of net gains (losses) incurred from the promissory notes for the year.

Other non-financial assets. Other non-financial assets consist of the Bank's repayments, advances to staff, consumable materials, stationary supplies and foreclosed assets. Receivables from ADB amounts MNT 4,270 million (2018: MNT 3,965 million) and project investment amounts MNT 3,377 million (2018:MNT 5,147 million) as at 31 December 2019.

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26. OTHER ASSETS (CONT'D.)

Credit loss allowances. Movements in the credit loss allowances of other financial assets during 2019 and 2018 are as follows:

	Stage 1 12-months ECL	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit impaired assets)						
31 December 2019	**Other financial assets**	**Other financial assets**	**Receivable from DIC**	**Asset received from Capital bank**	**Asset received from Anod bank**	**Receivables from companies**	**Claims on foreign financial institution**	**Subtotal**	**Total**
	MNT'mil	**MNT'mil**	**MNT'mil**	**MNT'mil**	**MNT'mil**	**MNT'mil**	**MNT'mil**	**MNT'mil**	
Gross carrying amount									
At 1 January 2019	3,353	–	193,710	–	60,615	56,352	23,106	333,783	337,136
Addition	–	–	425	54,480	–	–	–	54,905	54,905
Translation	–	–	–	–	–	1,759	792	2,551	2,551
Repayment during the year	(3,353)	–	(45,043)	–	(1,650)	–	–	(46,693)	(50,046)
At 31 December 2019	–	–	149,092	54,480	58,965	58,111	23,898	344,546	344,546
Credit allowance									
At 1 January 2019	778	–	115,000	–	60,615	56,352	23,106	255,073	255,851
Translations of provisions denominated in foreign currency	–	–	–	–	–	1,759	792	2,551	2,551
Credit loss expense/ (recovery) during the year	(778)	–	(9,093)	18,696	(1,650)	–	–	7,953	7,175
At 31 December 2019	–	–	105,907	18,696	58,965	58,111	23,898	265,577	265,577
Net carrying amount	–	–	43,185	35,784	–	–	–	78,969	78,969

	Stage 1 12-months ECL	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit impaired assets)					
31 December 2018	**Other financial assets**	**Other financial assets**	**Receivable from DIC**	**Asset received from Anod bank**	**Receivables from companies**	**Claims on foreign financial institution**	**Subtotal**	**Total**
	MNT'mil	**MNT'mil**	**MNT'mil**	**MNT'mil**	**MNT'mil**	**MNT'mil**	**MNT'mil**	
Gross carrying amount								
At 1 January 2018	–	–	193,709	62,798	52,163	21,219	329,889	329,889
Addition	3,353	–	1	–	–	–	1	3,354
Translation	–	–	–	–	4,189	1,887	6,076	6,076
Repayment during the year	–	–	–	(2,183)	–	–	(2,183)	(2,183)
At 31 December 2018	3,353	–	193,710	60,615	56,352	23,106	333,783	337,136
Credit allowance								
At 1 January 2018	–	–	115,000	62,798	52,163	21,219	329,880	329,880
Translations of provisions denominated in foreign currency	203	–	–	–	4,189	1,887	6,076	6,279
Credit loss expense/ (recovery) during the year	575	–	(78,700)	(2,183)	–	–	(80,883)	(80,308)
At 31 December 2018	778	–	115,000	60,615	56,352	23,106	255,073	255,851
Net carrying amount	2,575	–	78,710	–	–	–	78,710	81,285

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

27. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

Cost/valuation	Buildings/ premises MNT'mil	Const-ruction in progress MNT'mil	Office and computer equipment MNT'mil	Premises and equipment MNT'mil	Intangible assets MNT'mil	Total MNT'mil
At 1 January 2019	86,423	14,996	13,609	115,028	496	115,524
Additions	1,994	23,499	4,642	30,135	2,484	32,619
Disposals	(13)	–	(1,451)	(1,464)	(377)	(1,841)
Write-offs	(855)	–	(60)	(915)	–	(915)
At 31 December 2019	87,549	38,495	16,740	142,784	2,603	145,387
Accumulated depreciation/ amortization						
At 1 January 2019	(42,994)	–	(5,655)	(48,650)	(423)	(49,073)
Charge for a year (Note 15)	(1,577)	–	(2,673)	(4,250)	(543)	(4,793)
Disposals	–	–	1,431	1,431	352	1,783
Write-offs	793	–	52	845	–	845
At 31 December 2019	(43,778)	–	(6,845)	(50,624)	(614)	(51,238)
Net carrying amount	43,771	38,495	9,895	92,160	1,989	94,149

Cost/valuation						
At 1 January 2018	51,258	1,345	12,238	64,841	486	65,327
Additions	1,145	13,651	2,632	17,428	10	17,438
Disposals	(1,139)	–	(1,251)	(2,390)	–	(2,390)
Revaluation	35,159	–	–	35,159	–	35,159
Write-offs	–	–	(10)	(10)	–	(10)
At 31 December 2018	86,423	14,996	13,609	115,028	496	115,524
Accumulated depreciation/ amortization						
At 1 January 2018	(25,511)	–	(4,834)	(30,346)	(346)	(30,692)
Charge for a year (Note 15)	(925)	–	(2,075)	(3,000)	(77)	(3,077)
Disposals	576	–	1,248	1,824	–	1,824
Revaluation	(17,134)	–	–	(17,134)	–	(17,134)
Write-offs	–	–	6	6	–	6
At 31 December 2018	(42,994)	–	(5,655)	(48,650)	(423)	(49,073)
Net carrying amount	43,429	14,996	7,954	66,378	73	66,451

The Bank's premises have been revalued at fair value at 31 December 2018. The valuation was carried out by an independent firm of valuers, Growth Finance Audit LLC. The basis used for the appraisal was market value, replacement cost and discounted cash flow. Fair values were estimated using appropriate valuation techniques and using the following assumptions: For majority of the premises, market approach was assumed to be appropriate as there are sufficient information on comparable assets in the principal market.

For the premises of 2 branches in rural area, cost approach and income approach were used due to the fact that there are insufficient data of similar and comparable assets in their location areas and data obtained had significant difference. For majority of the premises, market approach was assumed to be appropriate as there are sufficient information on comparable assets in the principal market. Information about fair values of items valued using assumptions that are not based on observable market data and sensitivity analysis are disclosed in Note 38.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

27. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS (CONT'D.)

Addition of construction in progress with the amount of MNT 23,499 million is related to the construction of head office and Oracle database during 2019. (2018: MNT 13,651 million).

At 31 December 2019, the carrying amount of premises would have been MNT 13,440 million (2018: MNT 13,098 million) had the assets been carried at cost less depreciation. The amount reconciles to the carrying value of the premises as follows:

	2019 MNT'million	2018 MNT'million
Premises at revalued amount in the statement of financial position	43,771	43,429
Revaluation reserve presented in equity (Note 34)	(30,331)	(30,331)
Premises at cost less accumulated depreciation	13,440	13,098

None of the property, equipment and intangible assets have been pledged as security for borrowings as of 31 December 2019 and 31 December 2018.

Bank as a lessor

The Bank has entered into operating leases on its partial part of headquarter premises i.e. 1,024 sq.m of building and lease had 5 years terms starting from 2015. A lease includes a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the Bank during the year is MNT 580 million (2018: MNT 531 million), refer to note 14. Future minimum rentals receivable under cancellable operating leases as at 31 December are as follows:

	2019 MNT'million	2018 MNT'million
Within one year	580	531
After one year but not more than five years	–	580
	580	1,111

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28. CASH IN CIRCULATION

	2019 MNT'million	2018 MNT'million
Banknotes issued to circulation	927,051	1,094,565
Uncounted banknotes	(29,655)	(125,968)
Coins issued into circulation	21	21
	897,417	968,618

Cash issued into circulation

	At 31 December 2018 MNT'mil	Increase 2019 MNT'mil	Decrease 2019 MNT'mil	At 31 December 2019 MNT'mil
Issued banknotes	1,094,565	2,033,414	(2,200,928)	927,051
Issued coins	21	87	(87)	21
	1,094,586	2,033,501	(2,201,015)	927,072
Banknotes transferred from local banks*	(125,968)	(3,157,644)	3,253,957	(29,655)
Issued cash	968,618	(1,124,143)	1,052,942	897,417

*Banknotes transferred from local banks represents excess cash transferred from local banks for safeguarding purposes that are kept by BoM and will be transferred back to respective local bank upon their request.

29. CENTRAL BANK BILLS

	2019 MNT'million	2018 MNT'million
Bills payables	4,629,293	5,005,515

Central bank bills are bills issued by the Bank, which are issued to local banks. Such bills have maturities between 7 days to 184 days (2018: 7 days to 184 days) and bear interest rates of 11% per annum as at 31 December 2019 (2018: 11%-12% per annum).

30. LIABILITIES DUE TO GOVERNMENT ORGANIZATIONS

	2019 MNT'million	2018 MNT'million
Current accounts of MOF	1,556,508	504,923
Liabilities to the MOF related to borrowings:		
- International Monetary Fund (IMF)	594,974	578,771
- Government of Germany (KfW)	16,331	17,017
- Asian Development Bank (ADB)	28,630	23,169
- International Development Association (IDA)	5,142	6,227
	2,201,585	1,130,107

Current accounts of MOF. This relates to various current accounts that the MOF maintains with the Bank. These current accounts are on demand and do not bear any interest except for one account which bears an interest of 4.5% per annum as at 31 December 2019. (2018: 4.16% per annum).

Liabilities due to the MOF related to borrowings from international organizations. These liabilities relate to the borrowing agreements signed by the Government of Mongolia with IMF, KfW (acting on behalf of the Government of Germany), ADB and IDA. The MOF acts as the fiscal agent with regard to these agreements, while the Bank of Mongolia acts as the project executing agency.

International Monetary Fund (IMF). The Executive Board of the IMF approved a three-year extended arrangement under Extended Fund Facility (EFF) for Mongolia in a total amount of SDR 315 million to support the country's economic reform program on 24 May 2017. The EFF arrangement represent loans granted to Government of Mongolia by IMF under the EFF and bear interest ranging from 1.53% p.a. to 1.59% p.a.

The funding was further transferred to the Bank according to memorandum of understanding between the Bank and MOF dated 25 May 2017. These loans represent obligation of the MOF. Given that the MOF acts as a fiscal agent of Mongolia, it has signed promissory notes issued to IMF in respect of repayments of loans granted by IMF under EFF arrangement, the MOF has the obligation toward IMF with regard to these loans granted by IMF.

The loans and repayments are denominated in SDR and the repayment is done by the Bank on behalf of MOF to IMF according to repayment schedule. As at 31 December 2019, liabilities due to MOF under EFF arrangement were SDR 158 million which is equivalent to MNT 594,794 million (2018: SDR 158 million which is equivalent to MNT 578,771 million), with maturity of 3 years.

Government of Germany (KfW). The loans received from the KfW under the credit program for small and medium enterprises were made available under two separate programs in 1995 and 2003. The loans under both programs are denominated in Euro with maturity of 30 and 40 years, respectively. The loans bear interest at 0.75% per annum. The repayment of loan principal of the program commenced in 2005 and 2012, respectively.

Asian Development Bank (ADB). The loans received from the ADB are mainly for purpose of reducing poverty in Mongolia by developing and promoting private enterprises and providing training and consultancy to the Government, non-government organizations and local banks. The loans bear interest of 1% and 2.5% per annum with maturity ranging from 17 to 27 years.

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30. LIABILITIES DUE TO GOVERNMENT ORGANIZATIONS (CONT'D.)

For abovementioned loans from KfW and ADB, these resources are subject to a very low interest ranging from 0.75% to 1% per annum and were conditional on lending to selected sectors of economy or for other specified purposes at low rates. Management have considered whether gains should arise on initial recognition of such instruments. In making this judgement management made a conclusion that these borrowings should be considered as instruments of a principal market represented by inter-state project, financing aimed to serve the public interest that is often provided at just a token or even free of charge. Further, the funding from these institutions was also available at low interest rates to certain Mongolian local banks for selected sectors or specific purposes. As a result, no initial recognition gains should be recognised.

As a result of financing, the Bank is able to advance funds to eligible banks at advantageous rates. Management have considered whether losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgement is that this lending is at the market rates and no initial recognition losses should arise. In making this judgement management also considered that these instruments represent a principal market.

The Bank's obligations are to the MoF and it has no direct obligations toward IMF, KfW and ADB, as the MoF acts as the fiscal agent of the Government of Mongolia. However, the Bank, as project executing agency, is responsible for channelling funds to the local banks, which further channelled the funds to final customers (borrowers) who meet criteria specified by IMF, KfW and ADB.

Based on the arrangement between MOF and the Bank, the Bank has borrowed related funds from MOF under the same conditions, as MOF has borrowed under the agreement with IMF, KfW and ADB. the Bank also acts as a depository, and it is responsible for settling payments from the accounts of the MOF with regards to IMF, KfW and ADB. Loans issued to local banks from these funds are disclosed in Note 18.

International Development Association (IDA). Proceeds of the borrowings received by the MOF on behalf of the Government of Mongolia from IDA are for the private sector development project and the financial capacity development project, and are lent by MOF with interest rates of 1% and 3% per annum with maturity ranging from 14 to 15 years.

31. DEPOSITS FROM LOCAL BANKS

	2019 MNT'million	2018 MNT'million
Correspondent accounts:		
- in national currency	1,999,419	1,453,953
- in foreign currency	2,415,955	2,487,064
Overnight deposits in national currency	496,622	274,568
Time deposits in foreign currency	1,126,708	–
	6,038,704	4,215,585

Correspondent accounts mainly consist of various deposit accounts and the obligatory reserves of local banks maintained with the Bank, calculated as a percentage of their eligible liabilities to deposit holders.

The Bank has calculated and paid remuneration on required reserves of local banks that meet the reserve requirement set by the Bank. The remuneration rate is equal to 50% of overnight deposit interest i.e. 4.5%

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per annum as at 31 December 2019 (2018: 4%-4.5% per annum). Interest expense paid to local banks on their fulfillment of mandatory reserve requirement to local banks was amounted to MNT 76,035 (2018: MNT 55,295), refer to Note 7.

Overnight deposits in national currency as at 31 December 2019 represent MNT overnight deposits placed by local banks at an interest rate of 9% per annum with maturity of 2 days (2018: interest rate of 9% per annum with maturity of 2 days) .

Time deposits in foreign currency represent USD deposits placed by local banks at an interest rate between 1.72% and 1.86% per annum with initial maturity from 7 to 90 days as at 31 December 2019.

32. LIABILITIES DUE TO FOREIGN PARTIES

	2019 MNT'million	2018 MNT'million
Financing from People's Bank of China	4,785,483	4,727,193
Allocation of Special Drawing Rights of IMF	183,945	178,685
Subscription to World Bank	172	166
Subscription to IDA	39	39
Current account of World Bank	33	43
Current account of ADB	12	4
	4,969,684	4,906,130

Financing from People's Bank of China. This balance represents 7 months to 8 months (2018: 5 months to 8 months) financing denominated in CNY from the People's Bank of China that was used by the Bank for CNY funding to local banks. Interest rate is based on SHIBOR+200 bps per annum. For more information related to the arrangement, refer to Note 35.

Allocations of Special Drawing Rights. *("SDR")* IMF member countries are allocated SDR in proportion to their subscription to the IMF. The allocations represent a dormant liability of the Bank to the IMF, against which assets are received in the SDR Holdings account from the IMF as referred in Note 17. The net accumulation of the allocation was MNT 183,945 million equivalent to SDR 48,757 million (2018: MNT 178,685 million equivalent to SDR 48,757 million).

Subscription to World Bank and IDA This balance represents the Bank's subscription obligation to World Bank and IDA.

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33. OTHER LIABILITIES

	2019 MNT'million	2018 MNT'million
Other financial liabilities		
Other payables	23,066	15,853
Deposits by non-banking entities	6,789	98,913
Other liabilities		
Social development fund	1,533	1,929
	31,388	116,695

Deposits by non-banking entities. Deposits by non-banking entities relate to deposits from government organizations, Securities Clearing House Central Depository and DIC.

Social development fund. Based on its internal regulations, the Bank allocates certain funds to the Social development fund, which is used for improving living and working conditions of the Bank's employees. These funds are used for payment of benefits, reimbursements, work performance remunerations of the Bank's employees, purchasing apartments to guarantee social welfare of employees and to help employees in need etc. Management believes that allocated funds in social development fund are sufficient as of financial year-end to cover outstanding obligations.

34. CHARTER CAPITAL AND OTHER RESERVES

	2019 MNT'million	2018 MNT'million
Charter capital	60,000	60,000

The Bank increased its charter capital by MNT 55,000 million by isolating the reversal of provision from the accumulated deficit according to the Governor Resolution No.10 dated 10 January 2018. Management believes that the Parliament Resolution No.70 dated 16 November 2017 permits the Bank to increase its charter capital based on the Bank's proposal dated on 25 September 2017. Implementation of the transaction was confirmed by Economic Standing Committee ("ESC") based on the letter No.11/2200 dated 4 March 2019.

Therefore, the management is of the opinion that the transaction is fully in compliant with applicable law and regulations and the risk of uncertainty on their interpretation is low. Given that Parliament Resolution No.70 does not explicitly assigning the exclusive right of the Parliament to the Bank, management has assessed the risk that Parliament may take different position and declare Order #A-10 to be unenforceable in case any other parties challenge the legal ground of the decision to increase the charter capital of the Bank. No changes were made in the charter capital in 2019.

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34. CHARTER CAPITAL AND OTHER RESERVES (CONT'D.)

Other reserves comprise the following:

	Revaluation reserve for investment securities at FVOCI MNT'mil	Revaluation reserve for premises MNT'mil	Revaluation reserve for gold bullion and foreign exchange MNT'mil	Revaluation reserve for treasury fund MNT'mil	Total MNT'mil
At 1 January 2018	1,383	11,895	5,097	–	18,375
Loss on fair value changes of investment securities at FVOCI	(6,587)	–	–	–	(6,587)
Transfer to profit or loss upon disposal	9,641	–	–	–	9,641
Revaluation surplus on treasury fund	–	–	–	924,729	924,729
Revaluation surplus on premises	–	18,436	–	–	18,436
Transfer from accumulated deficit	–	–	171,246	–	171,246
At 31 December 2018 and 1 January 2019	4,437	30,331	176,343	924,729	1,135,840
Gain on fair value changes of investment securities at FVOCI	66,702	–	–	–	66,702
Transfer to profit or loss upon disposal	3,833	–	–	–	3,833
Revaluation surplus on treasury fund	–	–	–	137,035	137,035
Transfer from accumulated deficit	–	–	396,396	–	396,396
At 31 December 2019	74,972	30,331	572,739	1,061,764	1,739,806

Revaluation reserve for investment securities at FVOCI. This reserve comprises changes in fair value of investment securities at FVOCI.

Revaluation reserve for premises. The revaluation reserve is used to record the surplus arising from the revaluation of the Bank's building. Refer to Note 27 for more information.

Revaluation reserve for gold bullion and foreign exchange. Revaluation reserve is used to record the amount of unrealized gains or losses arising from fair value changes of gold bullion and foreign currency translation of monetary assets and liabilities denominated in foreign currency.

Revaluation reserve for treasury fund. The revaluation reserve is used to record the surplus arising from the revaluation of the Treasury Fund. Refer to Notes 23 for more information.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

35. CONTINGENCIES AND COMMITMENTS

Legal proceedings. In 2008, the Bank acts as defendant in legal proceedings held in Swiss and German court in connection with documentary letters of credit to two financial institutions. Though the Bank has been vigorously defending its position in these cases, the Bank has created provision in the amount of its full exposure (including interest) in 2009 and the provision was reversed to profit or loss in 2017 as cases has been finalized in the favour of the Bank. The Bank increased its charter capital by MNT 55,000 million by isolating the reversal of provision from the accumulated deficit according to the Governor Resolution No.10 dated 10 January 2018. Refer to Note 34.

Management is not aware of any other legal proceedings as of 31 December 2019, in which the Bank acts as defendant and which could result in material losses to the Bank. Thus, management believes that no provision is necessary in these financial statements.

Credit related commitments. The Bank enters into certain credit related commitments, which are deemed to be of importance for the country (e.g. exporting goods and/or services) and/or when such arrangements are requested by the Government of Mongolia or its institutions. The primary purpose of these instruments is to ensure that funds are available to the Government or other relevant parties in these arrangements as required.

Issued letters of credit represent unused portions of authorizations to extend credit in the form of loans or letters of credit, refer to information below. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments due to low counterparty risk, as outlined below.

Outstanding credit related commitments are as follows:

	2019 MNT'million	2018 MNT'million
Contingent Liabilities		
Import letters of credit	(77,387)	(90,565)
Commitments		
Undrawn credit line of People’s Bank of China	(5,400,000)	(5,400,000)
	(5,477,387)	(5,490,565)

Import letters of credit. Import letters of credit are mainly issued to the Government of Mongolia with regard to import arrangements. Through issued letters of credit, the Bank is obliged to make payment on behalf of the Government or its institutions to foreign legal entities, which provided services or delivered goods to the Government, its institutions or other entities at the Government’s request.

SWAP Agreement with People’s Bank of China. The Bank has entered into “Chinese Yuan/Mongolian Tugriks Bilateral Currency Swap Arrangement” with the People’s Bank of China in May 2011. The agreement was renewed in August 2014 and July 2017. Central banks can use this money for financing trade between the two countries, for providing short-term liquidity for stabilisation of financial markets, and for other purposes agreed upon by both parties.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

35. CONTINGENCIES AND COMMITMENTS (CONT'D.)

Based on the agreement, the People's Bank of China (PBC) and the Bank may, from time to time, conduct transactions involving the purchase and sale, and subsequent repurchase and resale, of CNY (Chinese Yuan) against MNT and of MNT against CNY. According to the agreement, the period of use of funds (i.e. usage period) can be up to twelve months. Each usage is made upon the request of one bank and approval of another bank. The maximum amounts requested for use are limited to the opened limit of CNY 15,000 million (2018: CNY 15,000 million) when the Bank is the requesting party and MNT 5,400,000 million (2018: MNT 5,400,000 million) when PBC is the requesting party.

The bank using funds is obliged to pay interest for the used amount on the date of repayment at interest rates specified in the agreement. In the case of the Bank requesting to use CNY, the interest rate is equivalent to 200 basis points plus the Shanghai Interbank Offered Rate (SHIBOR) for CNY deposits with corresponding usage period. In the case of PBC requests for use of MNT, the interest rate is equivalent to the Interbank MNT Weighted Rate with corresponding usage period.

As at 31 December 2019, the used amount of CNY 12,000 million equal to MNT 4,693,440 million (2018: CNY 12,000 million equal to MNT 4,628,760 million) and the unused amount of CNY 3,000 million equivalent to MNT 1,173,360 million (2018: CNY 3,000 million equivalent to MNT 1,157,190 million) represents the Bank's credit related commitment.

The Bank's management believes that fair value of letters of credit and credit line commitments are not material. The total outstanding contractual amount of undrawn credit lines and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. ECL measurement was assessed using the credit conversion factor and ECL for these balances represent an insignificant amount. Therefore, the Bank did not recognise any credit loss allowance for these credit commitments and financial guarantees.

Capital commitment. At 31 December 2019, the Bank had commitments of MNT 15,608 million (2018: MNT 34,254 million) relating to the mainly completion of the new building and purchase of new database infrastructure.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

36. RELATED PARTY TRANSACTIONS

As of 31 December 2019 and 31 December 2018, the Bank has disclosed balances and transactions with the following related parties: Government (which includes organizations, such as Ministry of Finance, which management is appointed by the Government of Mongolia), a local bank State Bank, which is fully owned by Ministry of Finance and management appointed by the Parliament, Development Bank of Mongolia, which is owned by Government of Mongolia and the management is appointed by the government; and DIC, which is fully owned by the government and all decisions concerning the activities of DIC must be approved by vote from each of the seven members of the National Committee chaired by the First Deputy Governor of the Bank.

The Bank utilized the amendment in IAS 24 on ‘partial exemption from the disclosure requirement for government-related entities’. Thus, individually immaterial transactions with government-related entities are not disclosed in these financial statements.

The outstanding balances and transactions with related parties as of 31 December 2019 and 2018 were as follows:

31 December 2019	**Government**	**State Bank**	**Development Bank of Mongolia**	**DIC**	**Total**
	MNT'mil	**MNT'mil**	**MNT'mil**	**MNT'mil**	**MNT'mil**
Government securities	134,028	–	–	–	134,028
Development Bank securities	–	–	49,522	–	49,522
Reverse repurchase agreements	–	–	–	–	–
Loans to local banks	–	51,732	–	–	51,732
Loans to non-financial entities	–	–	–	149,092	149,092
Financial derivatives	–	–	31,932	–	31,932
Central bank bills	–	(774,323)	–	(206,068)	(980,391)
Deposits from local banks	–	(322,036)	(140,528)	–	(462,564)
Deposits from non-financial entities	–	–	–	(5,889)	(5,889)
Liabilities due to the government organizations	(2,201,585)	–	–	–	(2,201,585)
Total	(2,067,557)	(1,044,627)	(59,074)	(62,865)	(3,234,123)

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

36. RELATED PARTY TRANSACTIONS (CONT'D.)

31 December 2018	Government	State Bank	Development Bank of Mongolia	DIC	Total
	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil
Government securities	64,331	–	–	–	64,331
Development Bank securities	–	–	44,305	–	44,305
Reverse repurchase agreements	–	7,718	–	–	7,718
Loans to local banks	–	57,565	–	–	57,565
Loans to non-financial entities	–	–	–	193,710	193,710
Financial derivatives	–	797	56,044	–	56,841
Central bank bills	–	(668,087)	(558,933)	–	(1,227,020)
Deposits from local banks	–	(233,381)	(1,870)	–	(235,251)
Deposits from non-financial entities	–	–	–	(98,092)	(98,092)
Liabilities due to the government organizations	(1,130,107)	–	–	–	(1,130,107)
Total	(1,065,776)	(835,388)	(460,454)	95,618	(2,266,000)

31 December 2019					
Interest income	11,603	6,404	97,029	425	115,462
Interest expense	(60,819)	(72,686)	(117,952)	–	(251,458)
Commission income	239	1,647	–	–	1,886
Total	(48,977)	(64,635)	(20,923)	425	(134,110)
31 December 2018					
Interest income	15,760	5,960	15,641	545	102,385
Interest expense	(31,174)	(51,480)	(27,390)	–	(251,457)
Commission income	210	1,248	–	–	1,886
Total	(15,204)	(44,272)	(11,749)	545	(147,186)

The transactions with related parties arose from the ordinary course of the Bank's operation. Outstanding balances to related parties at year-end are unsecured.

Import Letter of Credit Commitments. As of 31 December 2019, the Bank has MNT 77,387 million (2018: MNT 90,565 million) of import letter of credits commitments to related parties. Refer to Note 35 for more information.

Key management compensation is presented below:

	2019	2018
	MNT'million	MNT'million
Salary and wages	1,292	790
Social and pension fund contribution	213	106
Benefits in-kind	191	96
Other compensation	30	10
	1,753	1,002

37. FINANCIAL RISK MANAGEMENT

Risk is inherent in the Bank's activity; however, it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's management to pursue its monetary policy (including control of inflation), financial stability and business continuity of Mongolian banking operations. At certain times, the Bank may be overly exposed to certain risks and/or take disadvantageous positions of fulfilling its primary objectives and responsibilities, which are typical for central banks and consequently the Bank may incur unexpected financial losses, e.g. losses from translation of foreign currency balances. Such financial losses could be incurred with regard to all financial risks.

From the financial point of view, the Bank is exposed to credit risk, liquidity risk and market risk. In addition, it is also subject to operational, reputation and legal risks. Currently, the Bank has a decentralized risk management process. Each department is responsible for the independent control of risks, including monitoring the risk of exposures against their activities. Those risks, which are unique to the Bank as the central bank of Mongolia, are monitored through the Bank's strategic planning process. In addition, the Bank actively explores the possibility of setting up a Risk Committee. Committee, which would have the overall responsivity for the development of the risk strategy, and implementing principles, frameworks, policies and limits, as well as for making relevant decisions related to monitoring and managing risks.

At present, the Investment Committee is responsible for development of risk strategy and making decisions on relevant limits, while the Risk Management Unit and Reserve Management Financial Markets Department are in charge of implementing principles, frameworks, policies and limits.

37.1 Risk Management Structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors. The Board of Directors is responsible for the overall risk management approach. Further, it provides recommendations on risk management related issues to the Governor and the First Deputy Governor of the Bank.

Supervisory Board. The Supervisory Board has been established outside of the Bank's internal organization in order to maintain an external supervisory role and has the responsibility to monitor the overall risk process within the Bank.

Investment Committee. The Investment Committee is a key body responsible for risk management in the Bank. As such, the Committee is responsible for offering recommendations on the area of risk management policy to the Governor and the Board of Directors. It consists of the First Deputy Governor, Deputy Governor, Director of Risk Management Unit, Director of Reserve Management Financial Markets Department and Director of Financial Reporting and Accounting Department.

The Investment Committee issues the "Annual Investment Policy" and determines acceptable levels of risk. Based on the acceptable risk, the Investment Committee proposes the structure of the international reserve for the Governor's approval. The Committee's proposal defines the currency composition of international reserves and its acceptable variation, asset allocation and its acceptable variance, duration of investments, eligible instruments, counterparties and the counterparty limits. Limits over the foreign currency reserve are approved by the Governor on a quarterly basis and represent the key method used in managing international risk, as well as credit risk, liquidity risk and interest rate risk.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

The risks related to the Bank's foreign currency assets (reserves) are a key area of focus, given the proportion of international reserves in the Bank's total assets. Thus, the activities of the Investment Committees and departments involved in the risk management process are mainly focused on monitoring and managing risks related to international reserves. However, the Investment Committee is also responsible for monitoring the activities of the Risk Management Unit and other responsible departments, which address financial risks, related to the Bank's financial assets and liabilities, and overall compliance with the Bank's investment policy. The methods used in managing financial risks are further outlined below.

Risk management unit. The Risk Management Unit ("RMU") is responsible for implementing and maintaining international reserves and other risk related procedures to ensure an independent control process. RMU is responsible for monitoring compliance with strategic benchmark for international reserves, risk principles, policies and limits. In addition, RMU also ensures the complete capture of risk measures related to the international reserves and reporting system.

According to the Regulation on International Reserve Management, the objectives of reserve management are subordinated to the Bank's monetary and foreign exchange policies. The main objectives in holding foreign reserves are to:

- Support monetary policy;
- Manage excessive volatility of the foreign exchange market;
- Guarantee payment of government foreign exchange debt;
- Use as a liquidity buffer in the event of national disaster or emergency.

Risk management of international reserves contributes to these objectives by strategically managing and controlling the exposure to financial and operational risks. The Bank determines strategy for asset selection and allocation to control exposures to external risks. This involves establishing parameters for the currency holding and composition necessary to maintain the ready availability of convertible currencies, the permissible range of investment instruments that meet liquidity and security requirements, and duration requirements for limiting exposure to interest rate risk.

Reserve Management Financial Markets Department. Reserve Management Financial Markets Department is responsible for general implementation of the investment policy through its specific units. The Director of Reserve Management Financial Markets Department monitors and manages the general structure of the asset portfolio, including asset composition, instruments, counterparties, maturity, as well as limits over the international reserves.

Internal Audit Department. The Bank's internal control mission is to examine and evaluate the adequacy and effectiveness of the risk management system in its activities toward the accomplishment of the Bank's objectives, and fulfilment of policies and plans. Internal Audit Department ("IAD") charter determines its duties to examine the effectiveness of all levels of risk management in planning, organization, coordination and controlling the implementation of the policies and procedures adopted by the Bank, examining the compliance of operations and systems with laws, regulations as well as integrity, and security of financial and operational information. IAD carries out general risk assessment and further assessment focused on specific issues. General risk assessment is undertaken during the development of long-term and annual audit plans to ensure proper allocation of audit resources according to the degree of risk, while assessment focuses on particular issues at the specific level. IAD of the Bank has carried out activities in accordance with audit program and annual audit plan for 2019.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Priorities for audits are determined by applying criteria, which reflect potential and actual degree of risk to which each area of operation is exposed. For these purposes certain criteria are developed and appropriate weights are assigned to each type of criteria in relation to the activities audited. The weighted scores are totalled for each operational area and the degree of risk is classified as high, medium and low accordingly.

The evaluation of internal control system is also a very important aspect of internal audit work. The evaluation is aimed at ensuring the existence of adequate procedures and competent performance, as well as reliability of financial reporting system and compliance of all activities with applicable laws and regulations. IAD reports about findings and its recommendations administratively to the Governor, and functionally to the Supervisory Board. After each assessment, IAD discusses the results with management of the Bank, as well as undertaking follow-up reviews on the actions taken by management.

37.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. Exposure to credit risk results from the Bank's lending and other transactions with counterparties, which give rise to financial assets and off-balance sheet credit-related commitments.

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

Credit risk is managed and controlled through proper selection of investment assets, credit quality of investment assets and setting limits on the amount of investment per investment asset. Limits on the level of credit risk by type of investment and counterparty are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

In order to minimize credit risk, international reserves are invested in securities issued by the "Aaa" to "Aa3" rated governments (or central banks), and "Aaa" rated international institutions and agencies. The credit risk on foreign currency deposits and money market instruments is limited by transacting with counterparties rated "A3" or above by internationally recognised rating agencies. The minimum rating is taken when a counterparty has ratings from more than one rating agency.

For domestic monetary policy operations, the Bank actively uses collateral to reduce its exposure to credit risk. According to the Regulation on Central Bank Refinancing, the main types of collateral used when financial instruments are issued to Mongolian local banks are as follows:

1. Central Bank bills;
2. Government securities;
3. Development Bank securities; and
4. Loans issued by financial institution

The eligible borrowing banks have to meet all prudential ratios set by the Bank. If the borrowing local bank breaches one of the prudential ratios, the Bank terminates the refinancing operation in order to limit total exposure to the borrowing bank.

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit limits

In respect to international reserves, all counterparties have credit limits, which are set taking into consideration their ratings, capital, and other factors. The credit limits are approved quarterly by the Governor and compliance with the limits is monitored daily by the Risk Management Unit. In order to monitor its credit risk, the Bank also monitors the aging of its financial assets, particularly loans to local banks and other financial assets (refer to Notes 18 and 26). Any significant exposures against counterparties with deteriorating creditworthiness are reported to and reviewed by the Board of Directors, which also makes decisions on necessary actions.

As disclosed in Note 35, the Bank enters into certain credit related commitments, which are deemed to be of importance for the country (e.g. exporting goods and/or services) and/or when such arrangements are requested by the Government of Mongolia or its institutions. The primary purpose of these instruments is to ensure that funds are available to the Government or other relevant parties in these arrangements as required. Issued letters of credit represent irrevocable assurances that the Bank will make payments in the event that the party requesting this arrangement cannot meet its obligations to third parties and expose the Bank to similar risks to loans, which are mitigated by the same control processes and policies. Commitments to extend credit represent unused portions of authorisations to extend credit and relate to the arrangement with the People's Bank of China (Note 35). Based on analysis performed, the management believes that counterparty risk in case of this arrangement is low.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of monetary financial assets in the statement of financial position. The credit risk for reserve repurchase agreement is mitigated by collateral as disclosed in Notes 21. For letters of credit and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment, see Note 35.

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:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Definition of default, impaired and cure (cont'd.)

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

It is the Bank's policy to consider a financial instrument as '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

For measuring credit risk and grading financial instruments by the amount of credit risk, the Bank applies risk grades estimated by external international rating agencies (Moody's, Standard & Poor's - "S&P", Fitch). The Bank has fully suspended trading with certain parties without considering their ratings due to instability of international financial markets, which could lead to a system risk, if counterparty risk is not properly addressed.

External credit ratings are mapped on master scale with a specified range of probabilities of default as disclosed in the table below:

	Corresponding ratings of external international rating agencies	
Master scale credit risk grade	**S&P**	**Moody's**
Excellent	AAA to A-	AAA to A3
Good	BBB+ to B-	Baa1 to B3
Satisfactory	CCC+ to CCC-	Caa1 to Caa3
Special monitoring	CC to C	Ca to C
Default	Default	Default

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

THE BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Given that the biggest Mongolian local banks are rated by international rating agencies, financial assets due from local banks are also monitored on this basis. In case of unrated Mongolian local bank, the Bank considers financial conditions of related local bank based on the recent financial information, compliance with prudential ratios, and other information available by the Supervision Department and other relevant departments for assessing credit quality of related assets and benchmark proxies of comparable banks. At present, the Bank does not use internal credit rating systems for assessing credit quality of financial assets due from local banks.

Definition of default and determination of staging

The Bank defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- local banks' prudential ratios greater than the Bank's requirement;
- financial asset's loan to value ratio greater than 100%;
- the Altman Z-score for local banks and companies (Emerging markets) fall below 1.1 and 1.8 respectively;
- the borrower meets the unlikeliness-to-pay criteria listed below:

Definition of default (cont'd.)

- a missed or delayed disbursement of a contractually-obligated interest or principal payment
- a bankruptcy filing or legal receivership by the debt issuer or obligor that will likely cause a miss or delay in future contractually-obligated debt service payments;
- a distressed exchange whereby:
- a change in the payment terms of a credit agreement or indenture imposed by the sovereign that results in a diminished financial obligation, such as a forced currency re-denomination (imposed by the debtor, or the debtor's sovereign) or a forced change in some other aspect of the original promise, such as indexation or maturity.

The Bank's management sets following criteria for determination of Stage of financial assets:

No.	Criteria	Stage 1	Stage 2	Stage 3
1	Past due days of contractual payment	Less than 30 days	30-90 days	More than 90 days
2	Prudential ratio analysis for local banks	satisfies minimum requirement set by the Bank	doesn't satisfy minimum requirement set by the Bank	Default/ bankrupted
3	Altman Z-score for local banks and companies	Banks: Z-score > 2.6 Companies: Z-score > 3	Banks: 1.1 <Z-score>2.6 Companies: 1.8<Z-score>3	Banks: Z-score < 1.1 Companies: Z-score < 1.8
4	Loan to value ratio (LTV)	Less than 70%	70%-100%	Greater 100%

In addition to the above criteria, the Bank monitors recent changes in the external rating of banks and companies. Staging of financial assets reflects the upgrade or downgrade of the credit rating estimated by the external international rating agencies.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

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.

Loss given default

Loss given default (LGD) values are assessed annually by Risk Management Unit. LGD represents the Bank's expectation of the extent of loss on defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. 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.

In the absence of collateral for the financial instrument and sufficient historical data on default, the Bank applies expert judgment.

LGD is calculated by choosing appropriate methods shown below based on availability of quantitative data on loss:

- If there is sufficient information about loss to establish internal mode: to estimate future loss using simulation method by developing internal model when there is sufficient quantitative data on macroeconomics, particular sector and losses.
- If there is a certain amount of information about the losses: to estimate future loss using a simulation method and portfolio method, which is to estimate same loss rate for the collateralized and non-collateralized exposures.
- If there is lack of or missing information about the loss: to use loss rate information of similar financial asset or to use parameters established by the foreign regulatory body.

In 2019 and 2018, the Bank used Basel Quantitative Impact Study 3, Technical Guidance, LGD foundation approach for its LGD due to the limited historical data.

Loss given default (cont'd.)

The following table shows LGD determined for each financial asset class in 2019 and 2018:

	Due from foreign FI	**Investment in debt securities**	**Reverse repurchase agreement**	**Government securities**	**Loans to local banks**	**Other financial assets**
	(Note 17)	(Note 19)	(Note 21)	(Note 25)	(Note 18)	(Note 26)
2019	25%	0%-25%	3.9%	15.5%	25%-38%	31%-38%
2018	45%	35%-45%	45%	45%	45%	45%

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Significant increase in credit risk. (SICR)

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.

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.

When estimating ECLs 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.

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.

The Bank uses the historical default rates published by international rating agencies (Moody's and S&P) and macroeconomic factors to come up with a forward-looking probability weighted PD:

- Annual GDP;
- Inflation rate, lagged by one (1) year;
- Foreign direct investment;
- Unemployment rate

The bank has run a linear regression analysis on the annual PD for the last 21 years against those macro-economic variables. The final model consisted of the annual PD and the inflation rate (lagged by 1 year) as independent variables which are considered as the statistically significant macro-economic factors.

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 best and worst 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: 30% for Best and Worst case, and 40% for Base scenario.

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37. FINANCIAL RISK MANAGEMENT (CONT'D.)

The table following table shows the values of the key forward looking macro-economic assumptions used in each of the scenarios for the ECL calculations.

			Assumption for	
31 December 2019	**ECL Scenario**	**Assigned weightings**	**2019**	**2020**
Key drivers				
GDP growth %	Best case	30%	7%	7.69%
	Base case	40%	7%	5.70%
	Worst case	30%	7%	3.75%
Inflation rates %	Best case	30%	8.6%	8%
	Base case	40%	8.6%	8%
	Worst case	30%	8.6%	8%

Analysis of inputs to ECL model – forward looking information (cont'd.)

The following table shows the values of the forward-looking adjustment, result of the linear regression of annual historical PD against the independent variables, and the key PD used in each of the economic scenarios for the ECL model:

Forward looking adjustment (multipliers)/ Estimated PDs	**Best case**	**Base case**	**Worst case**
Multipliers	0.85	1.15	1.45
Estimated PDs	2.57%	3.5%	4.42%

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

31 December 2019	**Due from foreign FI**	**Investment in debt securities**	**Reverse repurchase agreement**	**Government securities**	**Loans to local banks**	**Other financial assets**
	(Note 17)	(Note 19)	(Note 21)	(Note 25)	(Note 18)	(Note 26)
In MNT'mil						
Best case (30%)	–	1,474	16	–	2,090	5,605
Base case (40%)	11	2,706	30	323	3,106	7,478
Worst case (30%)	–	2,527	28	–	2,570	5,613
Total ECL	11	6,707	74	323	7,766	18,696
Effect of multiple economic scenarios	–	919	10	–	483	6

In 2019, in terms of financial asset held with foreign institutions, including Due from foreign institutions and Investment in debt securities from foreign banks, the management assumed that forward-looking information is implied in the credit rating of the counterparty base on Probability of Default Implied Rating Research. Accordingly, credit allowance for the next 12 months was estimated on single best scenario. The Bank has performed sensitivity analysis on PD by changing the rating +/-10% and resulted in insignificant impact of MNT14 million to the ECL.

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

In 2018, the management assumed that forward-looking information is implied in the credit rating of the counterparty based on Probability of Default Implied Rating Research. Accordingly, the Bank applied single best scenario, taking into account of high probability (80%) to keep the rating for the next 12 months. In order to reach this conclusion, the Bank has performed sensitivity analysis on PD by changing the rating +/- 1 notch and it resulted in insignificant impact of MNT 740 million to ECL. If the LGD would be 10% higher or lower compared to current LGD, the ECL would increase or decrease by MNT 784 million as at 31 December 2018.

37.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates or foreign exchange rates. When assessing market risk, as well as liquidity risk, management's main considerations also include intervention needs, structure of the import and current liabilities to foreign parties. The Bank manages and monitors this risk element using sensitivity analyses. Except for the concentrations within foreign currencies, the Bank has no significant concentration of market risk. The Bank is not significantly exposed to other price risk.

37.4 **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk is managed through diversification of foreign currency portfolio and determination of the below parameters:

- international reserve management.
- maximum share of the managed currency in related assets denominated in foreign currencies for foreign currency reserve and short-term and long-term investment portfolio.

The currency composition of the international reserves is approved by the Investment Committee on an annual basis.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates of foreign currencies and SDRs applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or loss while a positive amount reflects a net potential increase.

	2019			2018		
Currency	**Change in currency rate %**	**Effect on profit for the year MNT'mil**	**Effect on equity MNT'mil**	**Change in currency rate %**	**Effect on profit for the year MNT'mil**	**Effect on equity MNT'mil**
USD	+/-10%	365,132	(251,478)	+/-10%	377,647	(247,332)
CNY	+/-10%	(422,174)	–	+/-10%	(410,144)	–
EUR	+/-10%	(1,861)	–	+/-10%	(1,861)	–
SDR	+/-10%	(65,299)	–	+/-10%	(65,299)	–
Other	+/-10%	328,872	–	+/-10%	328,872	–

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37. FINANCIAL RISK MANAGEMENT (CONT'D.)

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

The table below summarizes the Bank's exposure to foreign exchange risk as at 31 December 2019. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies and SDRs.

	MNT	USD	CNY	EUR	SDR	Other	Total
	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil
31 December 2019							
Cash on hand	55	148,585	15,474	37,609	–	12,521	214,244
Due from foreign financial institutions	–	3,212,079	595,213	102,239	135,171	413,806	4,458,508
Loans to local banks	441,856	772	–	290	–	–	442,918
Investments in debt securities	2,423,299	1,414,097	35,746	–	–	–	3,873,142
Investments in equity securities	5,139	–	–	6,595	–	–	11,734
Reverse repurchase agreements	553,993	2,700,444	–	–	–	–	3,254,437
Gold and precious metals	–	–	–	–	–	3,057,529	3,057,529
Government securities	134,028	–	–	–	–	–	134,028
Other financial assets	473,590	–	–	–	–	–	473,590
Total financial assets	4,031,960	7,475,977	646,433	146,733	135,171	3,483,856	15,920,130
Cash in circulation	(897,417)	–	–	–	–	–	(897,417)
Central bank bills	(4,629,293)	–	–	–	–	–	(4,629,293)
Liabilities due to government organizations	(808,763)	(754,991)	–	(20,075)	(604,211)	(13,545)	(2,201,585)
Deposits from local banks	(2,496,041)	(3,088,642)	(82,688)	(138,671)	–	(232,662)	(6,038,704)
Liabilities due to foreign parties	(84)	(172)	(4,785,483)	–	(183,945)	–	(4,969,684)
Other financial liabilities	(17,356)	(12,499)	–	–	–	–	(29,855)
Total financial liabilities	(8,848,954)	(3,856,304)	(4,868,171)	(158,746)	(788,156)	(246,207)	(18,766,538)
Derivative financial instruments	2,230,522	(2,514,784)	–	–	–	–	(284,262)
Net balance sheet position	(2,586,472)	1,104,889	(4,221,738)	(12,013)	(652,985)	3,237,649	(3,130,670)

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37. FINANCIAL RISK MANAGEMENT (CONT'D.)

The table below summarizes the Bank's exposure to foreign exchange risk as at 31 December 2018. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies and SDRs.

	MNT	USD	CNY	EUR	SDR	Other	Total
	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil
31 December 2018							
Cash on hand	49	66,292	29	722	–	4,935	72,027
Due from foreign financial institutions	–	1,763,160	641,367	131,186	146,229	186,297	2,868,239
Loans to local banks	440,765	809	–	719	–	–	442,293
Investments in debt securities	2,421,789	2,141,630	113,770	–	–	–	4,677,189
Investments in equity securities	5,139	–	–	6,595	–	–	11,734
Reverse repurchase agreements	322,054	2,141,558	–	–	–	–	2,463,612
Gold and precious metals	–	–	–	–	–	2,035,750	2,035,750
Government securities	64,331	–	–	–	–	–	64,331
Other financial assets	829,941	–	–	–	–	–	829,941
Total financial assets	4,084,068	6,113,449	755,166	139,222	146,229	2,226,982	13,465,116
Cash in circulation	(968,618)	–	–	–	–	–	(968,618)
Central bank bills	(5,005,515)	–	–	–	–	–	(5,005,515)
Liabilities due to government organizations	(208,068)	(295,985)	–	(19,737)	(588,043)	(18,274)	(1,130,107)
Deposits from local banks	(1,728,521)	(2,028,829)	(129,414)	(138,385)	–	(190,436)	(4,215,585)
Liabilities due to foreign parties	(86)	(166)	(4,727,193)	–	(178,685)	–	(4,906,130)
Other financial liabilities	(102,688)	(12,078)	–	–	–	–	(114,766)
Total financial liabilities	(8,013,496)	(2,337,058)	(4,856,607)	(158,122)	(766,728)	(208,710)	(16,340,721)
Derivative financial instruments	2,304,263	(2,473,316)	–	–	–	–	(169,053)
Net balance sheet position	(1,625,165)	1,303,075	(4,101,441)	(18,900)	(620,499)	2,018,272	(3,044,658)

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The main objective when managing the interest rate risk is to maintain stable return on investments while not exceeding the risk levels that can be undertaken per investment policies.

Assets and liabilities of the Bank are predominantly fixed rate or non-interest bearing, which significantly reduces exposure to interest rate risk. Further, in strategic benchmark development process the Bank sets duration requirements for its foreign reserve portfolio in order to limit exposure to interest rate risk. The duration requirement is monitored on a daily basis. The duration of the investment is assessed through the application of horizon analysis. The Bank uses a one-year investment horizon, defined negative return as minimum return and up to 5% of acceptable variance of negative return for calculation of prudential duration.

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37. FINANCIAL RISK MANAGEMENT (CONT'D.)

The table below summarizes the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates:

	Demand and less than one month	1 to 6 months	6 to 12 months	Over 12 months	Total interest bearing	Non-interest bearing	Total
	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil
31 December 2019							
Total financial assets	10,296,664	1,566,341	255,759	3,847,900	15,966,664	214,244	16,180,908
Total financial liabilities	(11,629,974)	(1,330,204)	(4,735,312)	(688,816)	(18,384,306)	(927,272)	(19,311,578)
Net interest sensitivity gap at 31 December 2019	(1,333,310)	236,137	(4,479,553)	3,159,084	(2,417,642)	(713,028)	(3,130,670)
31 December 2018							
Total financial assets	5,673,424	2,044,547	433,393	4,591,546	12,742,910	921,863	13,664,773
Total financial liabilities	(9,232,125)	(454,383)	(4,883,667)	(894,174)	(15,464,349)	(1,245,082)	(16,709,431)
Net interest sensitivity gap at 31 December 2018	(3,558,701)	1,590,164	(4,450,274)	3,697,372	(2,721,439)	(323,219)	(3,044,658)

Interest is accrued at floating rates on the following assets and liabilities: SDR holdings (Note 17), SDR allocation, and loan from loan from People's Bank of China (Note 32). At 31 December 2019, if interest rates at reporting date had been 100 basis points lower/higher, with all other variables held constant, loss for the year would have been MNT 37,991 million lower/higher (2018: MNT 34,775 million), mainly as a result of lower/higher interest expense on variable interest liabilities, primarily loan from People's Bank of China.

Management believes that the Bank's exposure to interest rate risk was not significant in 2019, as assets and liabilities of the Bank were predominantly fixed rate or non-interest bearing, and the Bank had no material interest bearing assets or liabilities at variable rates. The Bank monitors interest rates for its financial instruments. The table below summarizes interest rates at the respective reporting date based on reports reviewed by key management personnel. For quoted securities, the interest rates represent yields to maturity based on market quotations at the reporting date.

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37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Below summarises interest rates of financial rates of financial assets and liabilities as at 31 December 2019 and 2018.

	2019					2018				
In % per.annum	**MNT**	**USD**	**EUR**	**CNY**	**Other**	**MNT**	**USD**	**EUR**	**CNY**	**Other**
Assets										
Due from foreign financial institutions	-	1.75%	-	2.81%	0.70%	-	2.52%	-	3.09%	0.68%
Investments in debt securities	-	1.90%	-	3.60%	-	-	1.91%	-	3.57%	-
Reverse repurchase agreements	12.36%	2.20%	-	-	-	10.25%	3.04%	-	-	-
Government securities	1.00%	-	-	-	-	1.00%	-	-	-	-
Loans to local banks	2.56%	0.75%	1.25%	-	-	4.59%	0.75%	1.25%	-	-
Liabilities										
Central bank bills	11.06%	-	-	-	-	11.46%	-	-	-	-
Liabilities due to government organizations	-	2.53%	0.75%	-	1.00%	-	2.17%	0.75%	-	1.00%
Deposits from local banks	9.00%	1.78%	-	-	-	9.00%	-	-	-	-
Liabilities due to foreign parties	-	-	-	5.08%	-	-	-	-	5.51%	-

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

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37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2019 is set out below:

	Mongolia MNT'mil	OECD MNT'mil	IMF MNT'mil	Non-OECD MNT'mil	Total MNT'mil
Assets					
Cash on hand	214,244	–	–	–	214,244
Due from foreign financial institutions	–	3,728,124	135,171	595,213	4,458,508
Loans to local banks	442,918	–	–	–	442,918
Investments in debt securities	2,423,299	1,414,097	–	35,746	3,873,142
Investments in equity securities	5,201	6,533	–	–	11,734
Reverse repurchase agreements	553,993	2,700,444	–	–	3,254,437
Gold and precious metals	–	3,057,529	–	–	3,057,529
Derivative financial instruments	260,778	–	–	–	260,778
Government securities	134,028	–	–	–	134,028
Other financial asset	473,590	–	–	–	473,590
Total financial assets	4,508,051	10,906,727	135,171	630,959	16,180,908
Liabilities					
Cash in circulation	(897,417)	–	–	–	(897,417)
Central bank bills	(4,629,293)	–	–	–	(4,629,293)
Liabilities due to government organizations	(2,201,585)	–	–	–	(2,201,585)
Deposits from local banks	(6,038,704)	–	–	–	(6,038,704)
Derivative financial instruments	(545,040)	–	–	–	(545,040)
Liabilities due to foreign parties	–	(256)	(183,945)	(4,785,483)	(4,969,684)
Other financial liabilities	(29,855)	–	–	–	(29,855)
Total financial liabilities	(14,341,894)	(256)	(183,945)	(4,785,483)	(19,311,578)
Net balance sheet position as 31 December 2019	(9,833,843)	10,906,471	(48,774)	(4,154,524)	(3,130,670)
Credit related commitments (Note 35)	(77,387)	–	–	(5,400,000)	(5,477,387)

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2018 is set out below:

	Mongolia MNT'mil	OECD MNT'mil	IMF MNT'mil	Non-OECD MNT'mil	Total MNT'mil
Assets					
Cash on hand	72,027	–	–	–	72,027
Due from foreign financial institutions	–	2,079,403	146,229	642,607	2,868,239
Loans to local banks	442,293	–	–	–	442,293
Investments in debt securities	2,421,789	2,141,630	–	113,770	4,677,189
Investments in equity securities	5,201	6,533	–	–	11,734
Reverse repurchase agreements	322,054	2,141,558	–	–	2,463,612
Gold and precious metals	–	2,035,750	–	–	2,035,750
Derivative financial instruments	199,657	–	–	–	199,657
Government securities	64,331	–	–	–	64,331
Other financial asset	829,941	–	–	–	829,941
Total financial assets	4,357,293	8,404,874	146,229	756,377	13,664,773
Liabilities					
Cash in circulation	(968,618)	–	–	–	(968,618)
Central bank bills	(5,005,515)	–	–	–	(5,005,515)
Liabilities due to government organizations	(1,130,107)	–	–	–	(1,130,107)
Deposits from local banks	(4,215,585)	–	–	–	(4,215,585)
Derivative financial instruments	(368,710)	–	–	–	(368,710)
Liabilities due to foreign parties	–	(251)	(178,685)	(4,727,194)	(4,906,130)
Other financial liabilities	(114,766)	–	–	–	(114,766)
Total financial liabilities	(11,803,301)	(251)	(178,685)	(4,727,194)	(16,709,431)
Net balance sheet position as 31 December 2018	(7,446,008)	8,404,623	(32,456)	(3,970,817)	(3,044,658)
Credit related commitments (Note 35)	(90,565)	–	–	(5,400,000)	(5,490,565)

Other risk concentrations. Management monitors concentrations of credit risk through obtaining reports listing exposures to borrowers per counterparty limits, which are disclosed above. The Bank did not have any such significant risk concentrations as of 31 December 2019 and 31 December 2018.

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37. FINANCIAL RISK MANAGEMENT (CONT'D.)

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 stress circumstances. Liquidity risk of foreign currency is the main area of risk faced by the Bank. With respect to the classical investment triad (safety–liquidity-return), the investment policy of the Bank is maximizing returns, which ought to be considered only if all the liquidity and safety requirements are met. In circumstances of high import dependence, constant supply requirement of Government external debt servicing, volatility of demand and supply of foreign exchange in the domestic market, liquidity is the most important concern of foreign exchange reserve management. In order to manage liquidity risk, the Bank divided its foreign reserve portfolio into two sub-portfolios:

- The Short-term Investment Portfolio (including the cash management or liquidity portfolio): This portfolio is used for purposes of debt servicing and smooth functioning of the foreign exchange market. It consists of cash, overnights and demand deposits. It is also invested in time deposits, highly liquid money market instruments (commercial papers) and securities ranging from a week to twelve month maturity and commodities (monetary gold).
- The Long-term Investment Portfolio: This portfolio is invested in medium to long-term high liquid instruments including government bonds and securities.

In order to minimize the liquidity risk, the following asset structure is followed in accordance with the regulation on State Foreign Exchange Reserve Management:

- Not less than below limit defined as certain percentage of total assets with short-term maturity (i.e. maturity up to 1 year) shall be placed as current accounts and cash in foreign currency;
- Not less than below limit defined as percentage of total assets with short-term maturity (i.e. maturity up to 1 year) shall be placed as deposits with maturity up to 6 months.

Stop-loss limit of foreign trading is USD 400,000, while the limit of trading unit is USD 100,000 and the limit of one-off trading is USD 50,000, which also reduces liquidity risk.

The table below shows liabilities at 31 December 2019 and 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received i.e. payments in respect of gross settled forwards and swaps are accompanied by related cash inflows.

Liquidity requirements to support calls under issued letters of credit are considerably less than the amount of the commitment disclosed in the maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the maturity table below does not necessarily represent future cash requirements, since these commitments may expire or terminate without being funded.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated, using the spot exchange rate at the end of the reporting period.

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37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Analysis of financial liabilities by contractual maturities at 31 December 2019 is as follows:

	Demand and less than 1 month MNT'mil	From 1 to 6 months MNT'mil	From 6 to 12 months MNT'mil	Over 12 months MNT'mil	Total MNT'mil
Liabilities					
Cash in circulation	897,417	–	–	–	897,417
Central bank bills	4,278,866	380,783	5,285	–	4,664,934
Liabilities due to government organizations	1,558,247	997	5,952	637,223	2,202,419
Deposits from local banks	5,623,492	416,565	–	–	6,040,057
Liabilities due to foreign parties	184,201	92,043	4,843,866	–	5,120,110
Other financial liabilities	29,855	–	–	–	29,855
Gross settled swaps and forward					
- inflows	40,857	1,009,778	97,940	1,081,947	2,230,522
- outflows	(50,882)	(1,461,462)	(128,949)	(873,491)	(2,514,784)
Credit related commitments					
-Undrawn credit line to PBC	5,400,000	–	–	–	5,400,000
-Other contingent liabilities	77,387	–	–	–	77,387
Total undiscounted financial liabilities and commitments	18,039,440	438,704	4,824,094	845,679	24,147,917

Analysis of financial liabilities by contractual maturities at 31 December 2018 is as follows:

	Demand and less than 1 month MNT'mil	From 1 to 6 months MNT'mil	From 6 to 12 months MNT'mil	Over 12 months MNT'mil	Total MNT'mil
Liabilities					
Cash in circulation	968,618	–	–	–	968,618
Central bank bills	4,366,535	447,019	250,002	–	5,063,556
Liabilities due to government organizations	507,627	1,655	1,572	623,203	1,134,057
Deposits from local banks	4,215,722	–	–	–	4,215,722
Liabilities due to foreign parties	178,936	–	4,788,532	–	4,967,468
Other financial liabilities	114,766	–	–	–	114,766
Gross settled swaps					
- inflows	(37,344)	(265,425)	(167,721)	(1,833,773)	(2,304,263)
- outflows	39,654	288,581	185,903	1,959,178	2,473,316
Credit related commitments					
-Undrawn credit line to PBC	5,400,000	–	–	–	5,400,000
-Other contingent liabilities	90,565	–	–	–	90,565
Total undiscounted financial liabilities and commitments	15,845,079	471,830	5,058,288	748,608	22,123,805

A significant portion of deposits from local banks and liabilities due to government organizations represent core deposits. Similarly, cash in circulation also represents a stable source of financing, although the Bank does not have unconditional contractual rights to delay payment. Refer to maturity analysis based on expected maturity below.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities of carrying amounts of financial assets and liabilities and the resulting expected liquidity gap. The table below shows the maturity analysis of financial assets and liabilities based on expected maturity.

Expected maturity of financial liabilities significantly differs from contractual maturity, due to a large amount of core deposits (consisting primarily from deposits from government organizations and local banks) and cash in circulation, as mentioned above. Financial assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

The maturity analysis at 31 December 2019 is as follows:

	Demand and less than 1 month MNT'mil	From 1 to 6 months MNT'mil	From 6 to 12 months MNT'mil	Over 12 months MNT'mil	Total MNT'mil
Assets					
Cash on hand	214,244	–	–	–	214,244
Due from foreign financial institutions	3,478,178	980,330	–	–	4,458,508
Investments in debt securities	1,010,064	32,789	106,841	2,723,448	3,873,142
Investments in equity securities	–	–	–	11,734	11,734
Reverse repurchase agreements	2,700,444	494,481	–	59,512	3,254,437
Gold and precious metals	3,057,529	–	–	–	3,057,529
Derivative financial instruments	–	–	40	260,738	260,778
Government securities	–	–	–	134,028	134,028
Loans to local banks	443	966	51,378	390,131	442,918
Other financial assets	50,006	57,775	97,500	268,309	473,590
Total financial assets	10,510,908	1,566,341	255,759	3,847,900	16,180,908
Liabilities					
Cash in circulation	(897,417)	–	–	–	(897,417)
Central bank bills	(4,254,293)	(370,000)	(5,000)	–	(4,629,293)
Liabilities due to government organizations	(1,558,247)	(981)	(5,823)	(636,534)	(2,201,585)
Deposits from local banks	(5,623,208)	(415,496)	–	–	(6,038,704)
Derivative financial instruments	(10,025)	(451,684)	(31,049)	(52,282)	(545,040)
Liabilities due to foreign parties	(184,201)	(92,043)	(4,693,440)	–	(4,969,684)
Other financial liabilities	(29,855)	–	–	–	(29,855)
Total financial liabilities	(12,557,246)	(1,330,204)	(4,735,312)	(688,816)	(19,311,578)
Net liquidity gap	(2,046,338)	236,137	(4,479,553)	3,159,084	(3,130,670)

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

The maturity analysis at 31 December 2018 is as follows:

	Demand and less than 1 month MNT'mil	From 1 to 6 months MNT'mil	From 6 to 12 months MNT'mil	Over 12 months MNT'mil	Total MNT'mil
Assets					
Cash on hand	72,027	–	–	–	72,027
Due from foreign financial institutions	1,477,144	1,391,095	–	–	2,868,239
Investments in debt securities	569,034	535,555	102,176	3,470,424	4,677,189
Investments in equity securities	–	–	–	11,734	11,734
Reverse repurchase agreements	2,396,315	10,111	–	57,186	2,463,612
Gold and precious metals	2,035,750	–	–	–	2,035,750
Derivative financial instruments	–	–	771	198,886	199,657
Government securities	699	–	–	63,632	64,331
Loans to local banks	53	86,207	180,924	175,109	442,293
Other financial assets	10	20,500	85,000	724,431	829,941
Total financial assets	6,551,032	2,043,468	368,871	4,701,402	13,664,773
Liabilities					
Cash in circulation	(968,618)	–	–	–	(968,618)
Central bank bills	(4,345,530)	(424,156)	(235,829)	–	(5,005,515)
Liabilities due to government organizations	(507,947)	(1,052)	(1,052)	(620,056)	(1,130,107)
Deposits from local banks	(4,215,585)	–	–	–	(4,215,585)
Derivative financial instruments	(2,312)	(33,183)	(18,952)	(314,263)	(368,710)
Liabilities due to foreign parties	(178,937)	–	(4,727,193)	–	(4,906,130)
Other financial liabilities	(114,766)	–	–	–	(114,766)
Total financial liabilities	(10,333,695)	(458,391)	(4,983,026)	(934,319)	(16,709,431)
Net liquidity gap	(3,782,663)	1,585,077	4,614,155	3,757,083	3,044,658

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

38. FAIR VALUE MEASUREMENT

Fair value measurements are analyzed by level in the fair value hierarchy as follows:

(i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Transfers between level 1, 2 and 3

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

Determination of fair value and fair value hierarchy

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

The level in the fair value hierarchy into which the recurring fair value measurements are categorised as at 31 December 2019 and 2018 are, as follows:

31 December 2019	**Level 1 MNT'mil**	**Level 2 MNT'mil**	**Level 3 MNT'mil**	**Total MNT'mil**
Assets at fair value				
Financial assets				
-RAMP Investment Account Assets	870,831	–	–	870,831
-US treasury bills	327,866	–	–	327,866
-BIS	136,676	–	–	136,676
-China Government Bond	35,746	–	–	35,746
-KfW bond	67,814	–	–	67,814
-European Investment Bank bond	10,910	–	–	10,910
-Equity investment in MMC Holding JSC at fair value	5,139	–	–	5,139
-Gold Bullion and Precious Metals at fair value	3,057,529	–	–	3,057,529
-Government securities	–	134,028	–	134,028
-Promissory notes	–	–	394,621	394,621
Non-financial assets				
-Premises	–	–	43,771	43,771
-Treasury Fund	–	–	1,068,860	1,068,860
Total assets with recurring fair value measurements	4,512,511	–	1,507,252	6,153,791
Financial liabilities at fair value				
Financial derivatives	–	–	(284,262)	(284,262)

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

38. FAIR VALUE MEASUREMENT (CONT'D.)

31 December 2018				
Assets at fair value				
Financial assets				
-RAMP Investment Account Assets	814,702	–	–	814,702
-Bonds of Bank for International Settlements	789,252	–	–	789,252
-China Government Bond	113,770	–	–	113,770
-US treasury bills	537,676	–	–	537,676
-Equity investment in MMC Holding JSC at fair value	5,139	–	–	5,139
-Gold Bullion and Precious Metals at fair value	2,035,750	–	–	2,035,750
-Promissory notes	–	–	748,656	748,656
Non-financial assets				
-Premises	–	–	43,429	43,429
-Treasury Fund	–	–	931,241	931,241
Total assets with recurring fair value measurements	4,296,289	–	1,723,326	6,019,615
Financial liabilities at fair value				
Financial derivatives	–	–	(169,053)	(169,053)

The description of valuation technique and description of inputs used in the fair value measurement for level 3 measurements at 31 December 2019:

	Fair value MNT'mil	Valuation technique	Inputs used
Assets at fair value			
Financial assets			
-Financial derivatives	260,778	Discounted Cash Flow	Z-spread, LIBOR 6 month, Repo rate/(policy rate), Forward rate using GAP model
-Promissory notes	394,621	Discounted Cash Flow	Audited Financial Statements of promissory note issuers, market rate (policy rate+ margin determined based on credit risk of counterparty) and CF projection according to repayment schedule
Non-financial assets			
-Premises	43,771	Market and Cost approach	Comparable market prices, and internal research data of the external valuation company
-Treasury fund	1,068,860	Market and Cost approach	Comparable market prices, and internal research data of the external valuation company
Liabilities carried at fair value			
Financial liabilities			
-Financial derivatives	(545,040)	Discounted Cash Flow	Z-spread, LIBOR 6 month, Repo rate/(policy rate), Forward rate using GAP model
Total recurring fair value measurements at level 3	1,222,990		

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

38. FAIR VALUE MEASUREMENT (CONT'D.)

The description of valuation technique and description of inputs used in the fair value measurement for level 3 measurements at 31 December 2018:

	Fair value MNT'mil	Valuation technique	Inputs used
Assets at fair value			
Financial assets			
-Financial derivatives	199,657	Discounted Cash Flow	Z-spread, LIBOR 12 month, Repo rate/(policy rate), Forward rate using GAP model
-Promissory notes	748,656	Discounted Cash Flow	Audited Financial Statements of promissory note issuers, market rate (policy rate+2%) and CF projection according to repayment schedule
Non-financial assets			
-Premises	43,429	Market and Cost approach	Comparable market prices, and internal research data of the external valuation company
-Treasury fund	931,241	Market and Cost approach	Comparable market prices, and internal research data of the external valuation company
Liabilities carried at fair value			
Financial liabilities			
-Financial derivatives	(368,710)	Discounted Cash Flow	Z-spread, LIBOR 12 month, Repo rate/(policy rate), Forward rate using GAP model
Total recurring fair value measurements at level 3	1,554,273		

Sensitivity of fair value measurements to changes in unobservable market data

The table below describes the effect of changing the significant unobservable inputs to reasonable possible alternatives in the fair value measurement for level 3 assets are as follows at 31 December 2019. All changes would be reflected in the income statement. Sensitivity data are calculated adjusting model inputs to reasonable changes within the fair value methodology.

The ranges are not comparable or symmetrical as the model inputs are usually not in the middle of the favourable or unfavourable range.

Financial asset/liabilities	Unobservable input	Range	Sensitivity to FV measurement 2019 MNT'mil	Sensitivity to FV measurement 2018 MNT'mil
Financial derivative asset	Future MNT/USD spot rate	+5%	(94,991)	(45,069)
		-5%	108,333	56,595
Financial derivative liabilities	Future MNT/USD spot rate	+5%	(106,360)	(12,843)
		-5%	93,018	1,318
Promissory notes receivables	Discount rate	+100bps	(6,649)	(7,487)
		-100bps	3,545	7,487
Treasury fund	Market price	+10%	106,180	92,470
		-10%	(106,180)	(92,470)
Premises	Market price	+20%	8,754	8,686
		-20%	(8,754)	(8,686)

38. FAIR VALUE MEASUREMENT (CONT'D.)

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

Promissory notes receivables	**2019** **MNT'mil**	**2018** **MNT'mil**
At 1 January	748,656	689,722
Settlement	(272,500)	(60,000)
Accrued interest, net	6,989	45,313
Fair value (losses)/gains on promissory notes, net (Note 13)	(88,524)	73,621
At 31 December	**394,621**	**748,656**

Financial derivative assets and liabilities, net	**2019** **MNT'mil**	**2018** **MNT'mil**
At 1 January	(169,053)	(255,740)
Unrealised (losses)/gains on financial derivatives, net (Note 9)	(136,512)	84,985
Interest income, net (Note 6 and 7)	93,932	40,571
Settlement	(72,629)	(38,869)
At 31 December	**(284,262)**	**(169,053)**

For the movements in fair value measurement of treasury fund and premises, refer to Note 23 and Note 27, respectively.

(b) Financial instruments not measured at fair value but for which fair value is disclosed

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 as at 31 December 2019 and 31 December 2018.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

39. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IFRS 9 *Financial Instruments* classifies financial assets into the following categories: (a) financial assets at FVPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVPL have two sub-categories: (i) assets mandatorily measured at FVPL, and (ii) assets designated as such upon initial recognition or subsequently.

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

	Financial assets at AC MNT'mil	Debt instruments at FVOCI MNT'mil	Equity instruments at FVOCI MNT'mil	Financial assets at FVPL (mandatory) MNT'mil	Total MNT'mil
FINANCIAL Assets					
Cash and cash equivalents					
-Cash on hand	214,244	–	–	–	214,244
Due from financial institutions					
-Short term deposits in foreign currency	3,553,803	–	–	–	3,553,803
-Demand deposits	769,351	–	–	–	769,351
-Special drawing rights holdings	135,171	–	–	–	135,171
-World Bank subscriptions	172	–	–	–	172
-Other subscriptions	11	–	–	–	11
Loans advances to customers					–
- Loans issued under PSP	434,400	–	–	–	434,400
-Other loans	8,518	–	–	–	8,518
Gold and precious metal	–	–	–	3,057,529	3,057,529
Investments in debt securities					
-RAMP Investment Account Assets	–	870,831	–	–	870,831
-US treasury bills	–	327,866	–	–	327,866
-BIS	–	136,676	–	–	136,676
-KfW bond	–	35,746	–	–	35,746
-China government bond	–	67,814	–	–	67,814
-European Investment Bank bond	–	10,910	–	–	10,910
-Senior RMBS Bonds	2,373,777	–	–	–	2,373,777
-Development Bank securities	49,522	–	–	–	49,522
Investments in equity securities					
-Equity - MIK securities	–	–	5,139	–	5,139
-Other equity investments	–	–	6,595	–	6,595
Reverse repurchase agreements					
- Federal Reserve Bank of New York	2,700,444	–	–	–	2,700,444
- Local banks	553,993	–	–	–	553,993
Government securities	–	134,028	–	–	134,028
Derivative financial asset	–	–	–	260,778	260,778
Other financial assets	78,969	–	–	394,621	473,590
TOTAL FINANCIAL ASSETS	10,872,375	1,583,871	11,734	3,712,928	16,180,908

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

39. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONT'D.)

The following table provides a reconciliation of financial assets with the measurement categories at 31 December 2018.

	AC	Debt instruments at FVOCI	Equity instruments at FVOCI	FVPL (mandatory)	Total
	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil
FINANCIAL Assets					
Cash and cash equivalents					
-Cash on hand	72,027	–	–	–	72,027
Due from financial institutions					
-Short term deposits in foreign currency	2,081,826	–	–	–	2,081,826
-Demand deposits	640,007	–	–	–	640,007
-Special drawing rights holdings	146,229	–	–	–	146,229
-World Bank subscriptions	166	–	–	–	166
-Other subscriptions	11	–	–	–	11
Loans advances to customers					
-Loans issued under PSP	431,894	–	–	–	431,894
-Other loans	10,399	–	–	–	10,399
Gold and precious metal	–	–	–	2,035,750	2,035,750
Investments in debt securities					
-Bonds issued by Bank for International Settlements	–	789,252	–	–	789,252
-US treasury bills	–	537,676	–	–	537,676
-China government bond	–	113,770	–	–	113,770
-RAMP Investment Account Assets	–	814,702	–	–	814,702
-Senior RMBS Bonds	2,377,484	–	–	–	2,377,484
-Development Bank securities	44,305	–	–	–	44,305
Investments in equity securities					
-Equity - MIK securities	–	–	5,139	–	5,139
-Other equity investments	–	–	6,595	–	6,595
Reverse repurchase agreements					
-Federal Reserve Bank of New York	2,141,558	–	–	–	2,141,558
-Local banks	322,054	–	–	–	322,054
Government securities	64,331	–	–	–	64,331
Derivative financial asset	–	–	–	199,657	199,657
Other financial assets	81,285	–	–	748,656	829,941
TOTAL FINANCIAL ASSETS	8,413,576	2,255,400	11,734	2,984,063	13,664,773

As of 31 December 2019 and 2018, all of the Bank's financial liabilities were carried at amortised cost except for derivatives, which belong to the fair value through profit or loss measurement category.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

40. CAPITAL MANAGEMENT

The capital of the Bank comprises the residual value of the Bank's assets after deduction of all its liabilities. The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank considers total capital under management to be equity shown in the statement of financial position as disclosed in these financial statements.

No external capital requirements exist for the Bank as the central bank. The Law on Central Bank (Bank of Mongolia) defines the minimum amount of statutory capital (charter fund) and minimum portion of annual net income, which needs to be allocated to the Bank's equity.

As disclosed in Note 34, statutory capital of the Bank has been increased by MNT 55,000 million by isolating the reversal of provision from the accumulated deficit according to the Governor Resolution No.10 dated 10 January 2018. The Economy Stability Committee of Parliament confirmed the implementation of the transaction prepared by the Bank through the letter No.11/2200 dated 4 March 2019 and directed the Bank to further increase its charter capital. Management is of the opinion that the transaction is fully in compliant with applicable law and regulations.

The statutory capital as at 31 December 2019 is MNT 60,000 million (31 December 2018: MNT 60,000 million), which is above the minimum amount MNT 5,000 million defined by the Law. The Law also states that at least 40% of the Bank's net income has to be allocated to the Bank's equity, while the remaining amount (i.e. maximum 60% of net income) can be transferred to the State Budget account. No transfers were made to the State Budget during 2018 and 2019 as the Bank has not been profitable during recent years.

The Bank had loss of MNT 229,879 million in 2019 (2018: profit of MNT 8,407 million) and has net deficiency in assets of MNT 1,898,304 million as at 31 December 2019 (2018: MNT 1,875,995 million). Article 38 of the Law stipulates that if a deficit of the Central Bank arises, the Parliament shall make a decision whether the Government has to issue securities in order to cover the difference in the amount of the net deficit. Thus, the Government has no obligation to fund the net deficit of the Bank. However, issuance of government bonds for covering a deficit is a possibility, which could be used by the Parliament, to enable the Bank to perform its functions and continue its operations.

According to the Article 37 of the Law, the revaluation fund of the Bank should include the following:

- differences resulting from the foreign currency revaluation of assets and liabilities that are held in gold and in foreign currency due to fluctuations of foreign exchange rate of Mongolian Tugriks;
- differences resulting from the revaluation of fixed assets (i.e. buildings).

According to the Article 37 of the Law, the differences resulting from the revaluation of foreign currency denominated assets and liabilities and gold should not be included in the determination of net distributable income of the Bank.

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41. EVENTS AFTER THE END OF THE REPORTING PERIOD

In response to COVID-19 pandemic, the Bank has carried out corresponding actions directed to maintain the county's economic stability. Management believes that such measures had no impact on the Bank's financial position as at 31 December 2019 and is not aware of any other events other than disclosed below that occurred after the end of reporting period which would have impact on these financial statements.

According to the Law on "One-time forgiveness of pension-secured loans" issued in January 2020, Erdenes Mongol LLC issued 929,861 bonds ("Erdenes bond") with par value of MNT 1 million each, at zero interest rate per annum, whose principle is repayable after 5 years, to local commercial banks in exchange for the eligible outstanding pension backed loans, and the Bank of Mongolia is obligated to purchase certain bonds. As at the issuance date of this report, the Bank has purchased 40,512 Erdenes bonds from five local commercial banks at its original terms.

42. COMPARATIVE INFORMATION

In preparing the Bank's financial statements for the year ended 31 December 2019, certain prior year amounts have been reclassified for consistency with current year presentation and had no effect on the reported result of operation, details of which are as follows:

a. Premises amounting to MNT8,000 million has been reclassified to prepayments as the addition of the building has not yet been transferred to the Bank as of 31 December 2018.

b. Interest income from swap amounting to MNT 138,474 million and promissory notes amounting to MNT 103,376 million were reclassified to interest and similar income from net gains/(losses) from derivative financial instruments and net gains from financial assets at FVPL, respectively, according to their nature of classification.

c. Interest expense on swap amounting to MNT 97,903 million was reclassified to interest and similar expense from net gains/(losses) from derivative financial instruments according to their nature classification.

d. Unrealised net gains from valuation of gold amounting to MNT 164,176 million was combined to net gains from trading and revaluation of gold and precious metals.

e. Realised loss from trading swap amounting to MNT 118,447 reclassified to net gains/(losses) from derivative financial instruments from net losses from trading in foreign currencies.

f. Overstated reversal of impairment for debt instruments in profit or loss were transferred to other income and were reconciled to movement of the related ECL allowances of MNT 6,278 million.

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

42. COMPARATIVE INFORMATION (CONT'D.)

31 December 2018		As previously stated MNT'mil	Re-classification MNT'mil	Reconciled MNT'mil
Statement of financial position				
ASSETS				
Cash on hand		72,027	–	72,027
Due from foreign financial institutions		2,868,239	–	2,868,239
Loans to local banks		442,293	–	442,293
Investments in debt securities		4,677,189	–	4,677,189
Investments in equity securities		11,734	–	11,734
Reverse repurchase agreements		2,463,612	–	2,463,612
Gold bullion and precious metals		2,185,657	–	2,185,657
Treasury fund		931,241	–	931,241
Derivative financial instruments		199,657	–	199,657
Government securities		64,331	–	64,331
Other assets	a	840,790	8,000	848,790
Premises, equipment and intangible assets	a	74,451	(8,000)	66,451
Assets held for sale		4,144	–	4,144
TOTAL ASSETS		**14,835,365**	**–**	**14,835,365**
LIABILITIES				
Cash in circulation		968,618	–	968,618
Central bank bills		5,005,515	–	5,005,515
Liabilities due to government organizations		1,130,107	–	1,130,107
Deposits from local banks		4,215,585	–	4,215,585
Derivative financial instruments		368,710	–	368,710
Liabilities due to foreign parties		4,906,130	–	4,906,130
Other liabilities		116,695	–	116,695
TOTAL LIABILITIES		**16,711,360**	**–**	**16,711,360**
EQUITY				
Charter capital		60,000	–	60,000
Accumulated deficit		(3,071,835)	–	(3,071,835)
Other reserves		1,135,840	–	1,135,840
TOTAL EQUITY		**(1,875,995)**	**–**	**(1,875,995)**
TOTAL LIABILITIES AND EQUITY		**14,835,365**	**–**	**14,835,365**

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

42. COMPARATIVE INFORMATION (CONT'D.)

Year ended 31 December 2018		**As previously stated MNT'mil**	**Re-classification MNT'mil**	**Reconciled MNT'mil**
Statement of profit or loss and other comprehensive income				
Interest income calculated using EIR/Interest and similar income	b	275,154	241,850	517,004
Interest expense/Interest and similar expense	c	(823,530)	(97,903)	(921,433)
Net interest expense		**(548,376)**	**143,947**	**(404,429)**
Gains less losses/Net gains from trading/trading and revaluation of gold and precious metals	d	18,707	164,176	182,883
Gold bullion and precious metals revaluation gains less losses	d	164,176	(164,176)	–
Gains less losses/(Net losses) from derivative financial instruments	b,c,e	125,556	(159,018)	(33,462)
Losses less gains from trading in foreign currencies	e	(116,162)	118,447	–
Translation gains less losses in foreign currencies		134,175	–	–
Net gains on foreign currencies exchange		–	–	136,460
Reversal of impairment for loans to local banks at AC		4,054	–	–
Impairment of debt instruments at FVOCI		(120)	–	–
Reversal of impairment for debt instruments at AC	f	77,932	(6,278)	–
Credit loss expense		–	–	75,588
Losses less gains/Net losses from disposal of financial investments in debt securities		(9,641)	–	(9,641)
Gains less losses/Net gains from financial assets at FVPL	b	176,997	(103,376)	73,621
Income from trading of financial investments in debt securities		6,831	–	6,831
Other operating income	f	16,003	6,278	22,281
Administrative and other operating expenses		(41,725)	–	(41,725)
Profit for the year		**8,407**	**–**	**8,407**
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
- Losses less gains arising investment in debt securities during the year/ Losses on fair value change of other assets		(6,587)	–	(6,587)
- Gains less losses reclassified to the profit or loss upon disposal of investment in debt securities		9,641	–	9,641
Items that will not be reclassified to profit or loss:				
- Revaluation surplus for premises and equipment		18,436	–	18,436
- Revaluation surplus for treasury fund		924,729	–	924,729
Other comprehensive income for the year		946,219	–	946,219
Total comprehensive income for the year		**954,626**	**–**	**954,626**

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NOTES TO THE FINANCIAL STATEMENTS-31 DECEMBER 2019

43. MONGOLIAN TRANSLATION

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

Amount of current account, time deposit and loans by soum and village in December 2019

in MNT millions

Aimag/City	Soum/Village	Current account			Time deposit			Loans		
		Domestic currency	Foreign currency	Of which: Individuals	Domestic currency	Foreign currency	Of which: Individuals	Domestic currency	Foreign currency	Of which: Individuals
Total		**3,297,889.4**	**2,320,373.9**	**1,182,320.6**	**10,507,675.8**	**3,411,558.0**	**12,163,605.1**	**15,958,467.2**	**1,973,781.6**	**9,266,387.7**
Western region		**89,472.9**	**2,558.6**	**59,616.5**	**523,666.7**	**8,115.2**	**527,205.0**	**851,824.0**	**2,696.5**	**795,353.8**
Zavkhan	**Total**	**14,268.3**	**86.6**	**11,650.6**	**101,256.9**	**3,830.5**	**104,198.9**	**165,437.6**	**8.8**	**158,680.5**
	Uliastai	5,951.9	85.4	3,811.9	36,659.8	3,419.5	39,659.0	65,793.4	7.8	59,641.9
	Aldarkhaan	309.9	-	306.7	1,383.1	-	1,383.1	5,163.3	-	5,163.3
	Asgat	124.6	-	122.2	1,415.7	-	1,415.7	2,023.9	-	2,023.9
	Bayantes	259.2	-	252.0	1,516.8	-	1,516.8	5,374.0	-	5,374.0
	Bayankhairkhan	330.2	-	329.1	1,760.7	-	1,760.7	2,433.3	-	2,433.3
	Durvuljin	386.2	0.4	280.1	3,428.0	237.5	3,665.5	5,011.9	-	5,008.8
	Zavkhanmandal	176.9	0.0	172.0	2,048.3	-	2,048.3	2,287.8	-	2,287.8
	Ider	240.1	0.1	232.1	1,921.2	7.1	1,928.2	4,100.5	-	4,100.5
	Ikh-Uul	605.5	0.0	572.1	5,085.0	0.2	5,085.2	6,164.0	1.0	5,965.0
	Numrug	254.2	-	243.8	2,932.1	0.1	2,932.2	3,808.8	-	3,808.8
	Otgon	409.2	0.0	385.9	2,377.3	98.2	2,475.5	4,993.5	-	4,993.5
	Santmargaz	279.1	-	265.7	2,955.7	-	2,955.7	3,951.7	-	3,951.7
	Songino	330.3	0.0	321.6	2,198.1	-	2,198.1	3,135.8	-	3,135.8
	Tosontsengel	1,407.1	0.2	1,293.2	12,059.0	35.5	11,626.4	19,726.6	-	19,341.8
	Tudevtei	371.7	-	360.6	2,979.4	27.1	3,006.6	3,702.5	-	3,702.5
	Telmen	420.5	0.0	395.3	2,285.4	3.1	2,288.5	3,990.0	-	3,971.1
	Tes	406.3	0.0	385.1	4,709.0	0.6	4,709.7	6,306.3	-	6,306.3
	Urgamal	194.9	0.0	191.4	2,246.0	1.5	2,247.5	2,073.2	-	2,073.2
	Tsagaankhairkhan	234.0	-	226.1	1,583.1	0.1	1,583.1	2,652.4	-	2,652.4
	Tsagaanchuluut	319.0	0.0	311.4	2,077.4	0.0	2,077.4	2,016.6	-	2,016.6
	Tsetsen-Uul	384.3	0.0	374.2	1,940.5	-	1,940.5	3,175.9	-	3,175.9
	Shiluustei	257.3	0.0	240.3	1,611.6	0.0	1,611.6	3,148.5	-	3,148.5
	Erdenekhairkhan	346.1	-	308.2	2,418.5	-	2,418.5	2,069.9	-	2,069.9
	Yaruu	269.8	0.3	269.8	1,665.0	-	1,665.0	2,334.0	-	2,334.0

Govi-Altai	**Total**	**17,574.8**	**27.0**	**11,511.7**	**92,639.4**	**168.5**	**92,754.4**	**127,655.5**	**9.8**	**120,189.5**
	Yesunbulag	10,228.8	26.5	4,356.2	40,021.9	135.7	40,104.1	66,623.5	9.8	59,583.4
	Altai	466.2	-	460.7	3,316.0	0.2	3,316.2	5,235.4	-	5,235.4
	Bayan-Uul	470.5	-	437.1	3,925.6	2.4	3,928.0	2,955.6	-	2,955.6
	Biger	400.8	0.0	389.1	3,079.9	23.2	3,103.2	3,125.8	-	3,028.1
	Bugat	476.5	0.1	468.3	4,146.7	-	4,146.7	2,760.7	-	2,759.6
	Darvi	408.4	-	351.0	2,893.8	6.0	2,899.7	2,528.1	-	2,494.3
	Delger	476.0	0.0	472.1	3,696.6	0.2	3,696.8	5,855.6	-	5,855.6
	Jargalan	362.8	0.0	358.1	2,330.0	-	2,330.0	2,727.0	-	2,727.0
	Taishir	419.9	-	415.3	763.4	-	763.4	2,385.4	-	2,385.4
	Tonkhil	522.1	0.2	515.9	6,543.1	0.0	6,543.1	2,598.9	-	2,598.9
	Tugrug	334.1	-	314.6	3,299.7	-	3,299.7	2,909.8	-	2,909.8
	Khaliun	373.6	0.1	372.1	1,449.5	-	1,449.5	3,280.8	-	3,280.8
	Khukhmorit	326.7	0.0	323.0	1,947.5	-	1,947.5	3,844.1	-	3,804.1
	Tsogt	693.1	0.1	685.0	4,018.2	0.8	4,018.9	5,573.5	-	5,573.5
	Tseel	577.6	-	572.3	3,889.3	-	3,889.3	3,187.7	-	3,128.7
	Chandmani	422.3	0.0	415.3	2,715.4	0.0	2,715.4	4,012.9	-	3,831.5
	Sharga	236.8	-	235.8	2,183.0	-	2,183.0	2,744.7	-	2,744.7
	Erdene	378.7	0.0	369.8	2,419.8	0.0	2,419.8	5,306.2	-	5,293.2
Bayan-Ulgii	**Total**	**16,342.5**	**1,578.5**	**11,496.7**	**106,297.2**	**2,658.4**	**107,215.8**	**172,492.5**	**2,644.3**	**158,776.9**
	Ulgii	11,363.2	1,322.6	6,986.3	75,238.0	2,518.5	76,016.7	117,531.7	2,644.3	103,887.3
	Altai	268.0	0.0	266.6	3,205.3	58.3	3,263.6	3,620.8	-	3,620.8
	Altantsugts	243.9	0.0	243.7	761.2	-	761.2	3,183.1	-	3,183.1
	Bayannuur	411.7	0.0	400.3	2,773.2	0.9	2,774.1	3,924.7	-	3,924.7
	Bugat	188.1	254.0	173.1	1,363.5	64.8	1,428.3	3,414.2	-	3,374.2
	Bulgan	445.0	0.0	416.3	5,164.6	-	5,164.6	3,057.1	-	3,057.1
	Buyant	165.6	0.0	156.2	1,072.7	-	1,072.7	2,948.9	-	2,948.9
	Deluun	695.4	0.1	567.9	3,944.1	0.4	3,944.5	3,981.8	-	3,981.8
	Nogoonnuur	463.2	0.2	460.8	2,501.0	0.0	2,501.0	4,971.8	-	4,971.8
	Sagsai	247.7	0.1	244.8	1,771.4	-	1,771.4	6,514.5	-	6,514.5
	Tolbo	359.9	-	345.7	1,766.3	14.7	1,781.0	3,573.2	-	3,573.2
	Ulaankhus	573.8	0.0	561.2	2,969.6	0.0	2,969.6	6,129.7	-	6,129.7
	Tsagaannuur	153.9	-	150.1	1,552.8	-	1,552.8	3,155.2	-	3,155.2

	Tsengel	763.3	1.4	523.7	2,213.5	0.8	2,214.3	6,485.9	-	6,454.7
Khovd	**Total**	**24,548.9**	**397.9**	**13,846.2**	**97,832.2**	**519.1**	**98,070.0**	**199,156.0**	**0.0**	**184,395.6**
	Jargalant	17,232.7	301.5	6,812.4	55,920.6	481.9	56,117.7	120,264.8	0.0	105,794.4
	Altai	374.4	0.0	338.7	4,025.8	-	4,025.8	3,853.8	-	3,840.7
	Bulgan	1,414.5	96.3	1,421.4	8,820.8	30.3	8,854.8	19,405.1	-	19,286.4
	Buyant	329.0	0.0	310.3	1,877.4	-	1,877.4	3,487.6	-	3,487.6
	Darvi	426.3	0.0	399.7	3,713.4	0.0	3,713.5	4,030.7	-	4,030.7
	Duut	246.7	-	232.5	1,286.0	0.3	1,286.3	2,831.1	-	2,831.1
	Durgun	266.9	-	228.6	1,362.5	0.2	1,362.7	4,288.3	-	4,288.3
	Zereg	415.5	-	394.0	2,594.6	0.0	2,594.6	3,977.8	-	3,969.2
	Mankhan	420.7	-	408.3	2,024.4	0.7	2,025.1	5,543.6	-	5,470.2
	Munkhkhairkhan	263.1	-	259.0	1,446.3	0.0	1,446.3	2,922.0	-	2,915.2
	Must	511.5	-	494.1	2,994.0	0.0	2,994.0	3,301.9	-	3,295.1
	Myangad	398.7	0.0	386.5	1,342.5	4.0	1,346.5	3,258.9	-	3,258.9
	Uyench	477.9	0.0	442.9	3,339.0	0.8	3,339.9	7,787.2	-	7,766.2
	Khovd	239.0	0.0	236.2	1,985.0	-	1,985.0	3,917.2	-	3,917.2
	Tetsetseg	924.4	0.0	901.3	2,582.7	0.7	2,583.4	3,697.7	-	3,690.5
	Chandmani	298.6	0.0	285.8	1,455.5	-	1,455.5	3,732.1	-	3,732.1
	Erdeneburen	309.1	0.0	294.5	1,061.5	-	1,061.5	2,856.2	-	2,821.8

Aimag/City	Soum/Village	Current account		Of which: Individuals	Time deposit		Of which: Individuals	Loans		Of which: Individuals
		Domestic currency	Foreign currency		Domestic currency	Foreign currency		Domestic currency	Foreign currency	
Uvs	**Total**	**16,738.4**	**468.6**	**11,111.3**	**125,641.1**	**938.7**	**124,965.7**	**187,082.4**	**33.6**	**173,311.3**
	Ulaangom	10,641.4	467.8	5,557.0	75,177.6	723.6	74,303.5	108,567.2	12.8	94,870.6
	Baruunturuun	426.3	0.0	359.3	2,777.1	62.5	2,839.5	6,823.1	-	6,815.7
	Bukhmurun	306.4	-	291.4	2,489.1	-	2,489.1	4,047.5	-	4,047.5
	Davst	137.8	-	131.3	1,240.3	-	1,240.3	3,325.4	-	3,325.4
	Zavkhan	169.7	0.7	158.9	2,488.8	-	2,488.8	3,686.6	-	3,686.6
	Zuungovi	422.9	0.0	402.4	1,894.1	0.0	1,894.1	5,271.8	-	5,271.8
	Zuunkhangai	539.6	0.0	415.4	5,696.2	0.1	5,680.0	3,151.2	-	3,151.2
	Malchin	235.5	-	224.5	2,169.6	-	2,169.6	3,109.6	-	3,109.6
	Naranbulag	385.2	-	370.6	2,488.2	30.6	2,518.8	5,883.3	20.8	5,866.1
	Ulgii	189.7	0.0	176.8	1,285.7	0.3	1,286.0	3,790.7	-	3,784.2
	Umnugovi	415.3	-	388.6	3,582.4	0.0	3,582.5	5,941.1	-	5,941.1
	Undurkhangai	454.0	0.0	433.2	3,094.8	24.7	3,119.5	5,162.9	-	5,162.9
	Sagil	278.3	0.0	213.1	1,313.3	-	1,313.3	3,841.2	-	3,841.2
	Tarialan	381.1	0.0	350.4	3,857.3	0.0	3,857.4	3,277.3	-	3,264.9
	Turgen	181.3	-	138.2	1,195.1	0.4	1,195.5	2,773.2	-	2,773.2
	Tes	646.4	0.0	624.2	4,389.9	-	4,389.9	7,982.1	-	7,982.1
	Khovd	194.7	0.0	185.6	2,780.4	1.8	2,782.2	3,506.9	-	3,478.5
	Khyargas	350.7	0.0	335.0	3,620.9	71.7	3,692.6	3,444.4	-	3,444.4
	Tsagaankhairkhan	382.1	-	355.5	4,100.3	22.9	4,123.3	3,497.1	-	3,494.5
Khangai region		**148,508.0**	**45,074.9**	**102,467.5**	**848,807.9**	**67,327.5**	**877,198.2**	**1,269,670.1**	**1,135.9**	**1,187,176.4**
Orkhon	**Total**	**51,840.2**	**44,268.1**	**29,949.4**	**273,135.0**	**44,907.6**	**283,619.0**	**342,702.4**	**816.9**	**297,568.5**
	Bayan-Undur	51,493.4	44,268.0	29,604.8	271,466.3	44,897.6	281,940.4	337,473.7	816.9	292,364.7
	Jargalant	346.8	0.1	344.6	1,668.7	10.0	1,678.7	5,228.7	-	5,203.8
Uvurkhangai	**Total**	**26,374.7**	**254.8**	**18,720.9**	**144,258.5**	**1,486.7**	**145,370.2**	**219,297.1**	**38.5**	**208,231.3**
	Arvaikheer	9,804.3	165.6	6,071.4	61,267.2	665.0	61,673.1	113,155.9	8.0	102,646.3
	Baruunbayan-Ulaan	419.4	0.0	394.8	3,162.8	-	3,162.8	3,932.9	-	3,932.9
	Bat-Ulzii	801.5	0.2	732.3	9,423.5	100.0	9,523.5	11,890.4	-	11,846.2
	Bayangol	838.6	0.0	833.9	3,496.6	0.4	3,497.0	3,254.9	-	3,254.9
	Bayan-Undur	923.4	-	882.3	4,467.8	3.2	4,471.0	2,931.0	-	2,931.0
	Bogd	676.9	0.8	651.1	4,103.5	22.3	4,125.8	5,673.3	-	5,673.3

	Burd	527.7	50.5	547.0	4,352.8	0.0	4,352.9	3,789.0	-	3,789.0
	Guchin-Us	520.1	0.1	516.1	1,999.9	1.4	2,001.3	2,557.4	-	2,557.4
	Yesun zuil	414.6	-	413.2	1,468.8	2.8	1,471.6	2,966.7	-	2,966.7
	Zuunbayan-Ulaan	511.7	0.1	495.6	1,501.8	10.4	1,512.2	3,684.4	-	3,662.2
	Nariinteel	3,020.2	-	621.5	2,806.1	0.0	2,806.1	4,481.0	-	4,481.0
	Ulziit	480.3	-	476.9	2,063.3	-	2,063.3	2,440.4	-	2,440.4
	Sant	671.9	3.0	672.1	3,795.2	0.1	3,795.3	3,628.4	-	3,628.4
	Taragt	427.2	0.0	420.9	992.2	-	992.2	2,878.6	-	2,878.6
	Tugrug	504.8	5.1	501.3	1,812.6	5.7	1,818.4	3,519.9	-	3,519.9
	Uyanga	1,334.1	0.0	1,126.9	9,132.9	4.7	9,137.6	10,050.1	-	10,050.1
	Khairkhandulaan	669.5	0.0	663.9	3,340.7	0.1	3,340.8	4,002.7	-	4,002.7
	Kharkhorin	2,029.1	24.3	1,689.7	18,663.0	657.0	19,204.1	25,489.4	15.2	25,022.7
	Khujirt	1,799.5	5.0	1,010.1	6,407.4	13.6	6,421.1	8,970.7	15.3	8,947.7
Bulgan	**Total**	**9,702.1**	**39.3**	**7,989.4**	**55,354.3**	**535.4**	**55,820.2**	**127,572.4**	**83.8**	**121,732.8**
	Bulgan	3,803.4	12.0	2,385.3	19,202.3	273.1	19,405.9	45,730.5	57.9	40,962.1
	Bayan-Agt	366.5	6.2	368.4	2,605.7	4.9	2,610.7	5,394.2	-	5,275.7
	Bayannuur	317.6	0.9	314.6	1,121.3	26.7	1,148.1	4,265.5	25.9	4,291.4
	Bugat	200.9	0.0	191.4	1,044.8	0.0	1,044.8	3,003.0	-	2,992.2
	Buregkhangai	426.2	0.0	371.6	2,378.3	1.2	2,379.5	4,958.3	-	4,947.1
	Gurvanbulag	384.8	-	361.9	3,466.8	2.5	3,469.3	4,633.1	-	4,602.1
	Dashinchilen	383.7	0.0	366.9	2,602.3	16.4	2,618.7	5,877.9	-	5,827.9
	Mogod	309.5	-	308.5	4,001.5	-	4,001.5	3,713.3	-	3,713.3
	Rashaant	386.3	0.0	377.9	3,089.2	6.2	3,095.3	5,986.2	-	5,986.2
	Saikhan	466.5	0.0	441.7	3,699.7	75.4	3,775.1	4,214.3	-	4,191.2
	Selenge	464.3	0.0	400.0	1,526.1	0.1	1,526.1	5,795.4	-	5,734.6
	Teshig	444.6	-	420.2	1,328.6	4.0	1,332.7	6,429.9	-	6,311.0
	Khangal	523.3	11.5	516.9	2,189.2	0.0	2,189.3	8,527.2	-	8,457.2
	Khishig-Undur	413.1	0.0	394.5	2,738.4	105.4	2,843.8	4,955.2	-	4,955.2
	Khutag-Undur	559.7	8.5	530.5	3,136.6	19.4	3,156.0	9,728.1	0.0	9,188.0
	Orkhon	251.5	0.0	239.2	1,223.5	-	1,223.5	4,360.5	-	4,297.5
Bayankhongor	**Total**	**18,994.8**	**129.7**	**13,621.9**	**113,784.5**	**2,165.8**	**115,810.1**	**194,795.5**	**1.4**	**187,439.2**
	Bayankhongor	10,748.5	91.4	6,169.2	54,910.3	2,017.5	56,789.5	87,361.8	1.4	80,350.5
	Baatsagaan	609.8	-	524.9	3,625.2	-	3,625.2	4,788.6	-	4,788.6

Bayanbulag	240.1	-	209.4	2,416.4	-	2,414.5	3,332.1	-	3,332.1
Bayangovi	403.3	0.0	377.8	2,021.1	0.2	2,021.3	4,393.7	-	4,393.7
Bayanlig	509.0	-	481.7	5,147.7	13.3	5,161.0	5,813.8	-	5,813.8
Bayan-Ovoo	251.6	-	247.2	574.2	0.0	574.2	2,850.9	-	2,850.9
Bayan-Undur	298.5	0.0	251.9	5,168.4	0.0	5,168.5	3,273.3	-	3,273.3
Buyantsagaan	359.0	0.1	353.1	4,697.9	6.6	4,704.5	4,763.8	-	4,763.8
Bogd	464.3	0.0	354.1	2,844.7	1.4	2,846.0	4,492.5	-	4,478.4
Bumbugur	444.4	33.1	379.3	3,452.0	40.4	3,492.4	5,713.6	-	5,701.7
Buutsagaan	562.0	0.0	534.1	4,068.1	0.0	4,068.1	6,225.1	-	6,225.1
Galuut	491.0	0.0	484.9	2,733.0	-	2,733.0	5,933.2	-	5,913.3
Gurvanbulag	443.1	0.0	429.4	3,419.5	0.0	3,419.5	4,047.0	-	4,047.0
Jargalant	424.0	0.0	416.5	3,430.5	0.1	3,430.6	26,836.6	-	26,586.7
Jinst	447.7	0.0	364.1	1,352.2	0.0	1,352.2	3,632.5	-	3,632.5
Zag	364.2	-	355.7	2,372.5	-	2,372.5	3,423.0	-	3,403.0
Ulziit	412.9	0.0	406.0	2,031.5	-	2,031.5	4,717.8	-	4,708.7
Khureemaral	306.0	0.2	295.9	2,557.9	31.7	2,589.6	3,521.7	-	3,501.7
Shargaljuut	218.8	0.0	204.4	1,204.1	0.0	1,204.2	1,956.2	-	1,956.2
Shinejinst	468.2	4.8	300.0	3,766.1	54.3	3,820.4	3,019.4	-	3,019.4
Erdenetsogt	528.4	0.0	482.3	1,991.3	0.1	1,991.3	4,698.9	-	4,698.9

Aimag/City	Soum/Village	Current account			Time deposit			Loans		
		Domestic currency	Foreign currency	Of which: Individuals	Domestic currency	Foreign currency	Of which: Individuals	Domestic currency	Foreign currency	Of which: Individuals
Arkhangai	**Total**	**17,237.2**	**161.2**	**14,422.8**	**117,926.7**	**16,782.9**	**134,018.7**	**151,425.6**	**7.4**	**145,591.9**
	Erdenebulgan	7,553.3	119.9	4,933.8	53,354.6	16,576.8	69,240.4	61,516.2	-	56,425.1
	Battsengel	552.1	0.0	545.1	4,141.2	0.5	4,141.7	5,594.4	-	5,594.4
	Jargalant	509.3	-	487.0	4,045.2	-	4,045.2	3,939.0	-	3,919.0
	Ikhtamir	614.0	5.6	598.1	3,032.5	0.2	3,032.7	6,379.4	-	6,279.4
	Ugiinuur	396.2	0.0	339.2	1,996.8	0.2	1,997.0	4,574.1	-	4,555.8
	Ulziit	467.7	27.8	477.7	4,458.6	14.1	4,472.7	6,462.9	7.4	6,470.3
	Undur-Ulaan	759.6	-	752.6	4,119.9	-	4,119.9	4,911.9	-	4,911.9
	Tariat	705.9	0.0	693.0	4,049.6	0.9	4,050.6	6,295.8	-	6,095.8
	Tuvshruulekh	438.1	0.1	435.6	2,082.6	0.5	2,083.0	4,598.1	-	4,581.6
	Khairkhan	557.4	0.0	554.8	5,063.8	0.3	5,064.1	5,648.5	-	5,648.5
	Khangai	368.8	0.0	368.6	2,263.9	-	2,263.9	3,395.1	-	3,395.1
	Khashaat	477.1	-	476.7	3,250.1	31.1	3,281.2	3,752.5	-	3,752.5
	Khotont	600.3	-	590.5	3,812.9	0.8	3,813.6	6,150.8	-	6,117.5
	Tsakhir	312.6	-	298.2	2,374.6	119.3	2,493.9	2,704.4	-	2,699.6
	Tsenkher	785.6	0.0	773.9	3,158.8	0.3	3,159.1	6,665.3	-	6,411.0
	Tsetserleg	540.3	-	518.4	4,656.5	0.0	4,656.5	4,566.6	-	4,566.6
	Chuluut	453.3	0.2	442.8	3,199.6	-	3,199.6	3,405.1	-	3,405.1
	Erdenemandal	831.4	0.0	815.3	6,933.8	37.2	6,971.0	6,674.8	-	6,571.7
	Bulgan	314.4	7.6	321.6	1,931.6	0.8	1,932.4	4,190.8	-	4,190.8
Хөвсгөл	**Total**	**24,359.0**	**221.7**	**17,763.1**	**144,348.9**	**1,449.1**	**142,560.0**	**233,877.1**	**187.9**	**226,612.8**
	Murun	12,509.1	182.8	6,846.2	81,559.0	1,288.3	79,609.3	111,977.6	186.8	105,538.1
	Alag-Erdene	461.5	0.0	402.3	1,634.1	-	1,634.1	4,849.0	-	4,849.0
	Arbulag	537.5	2.3	532.1	1,476.9	-	1,476.9	4,571.0	-	4,571.0
	Bayanzurkh	483.1	0.1	474.1	2,568.2	0.0	2,568.2	5,939.3	-	5,919.0
	Burentogtokh	618.7	0.9	617.3	1,935.6	1.5	1,937.1	5,524.5	-	5,524.5
	Galt	710.5	1.1	662.9	5,146.2	4.5	5,150.7	6,916.8	-	6,916.8
	Jargalant	482.9	0.0	425.6	5,055.4	3.1	5,058.5	5,147.2	-	5,108.1
	Ikh-Uul	880.2	10.2	835.4	3,036.3	0.1	3,036.4	6,835.7	-	6,835.7
	Rashaant	497.9	0.1	474.8	3,085.0	54.6	3,139.6	4,910.8	-	4,902.1
	Renchinlkhumbe	402.3	0.0	364.8	3,496.9	1.5	3,498.4	4,710.4	-	4,701.7

	Tarialan	994.8	0.5	694.2	3,996.3	15.9	4,012.2	11,435.2	-	10,886.7
	Tosontsengel	555.2	0.0	532.7	3,006.4	-	3,006.4	5,634.5	-	5,634.5
	Tumurbulag	376.0	0.2	358.9	2,093.3	0.0	2,093.3	5,457.4	-	5,457.4
	Tunel	322.1	0.0	310.5	1,434.6	-	1,434.6	5,808.9	-	5,799.4
	Ulaan-Uul	428.8	1.5	404.8	2,506.0	-	2,506.0	5,573.2	-	5,573.2
	Khankh	279.3	0.3	271.6	1,505.9	-	1,505.9	5,146.6	-	5,146.6
	Khatgal	527.8	14.4	452.4	2,412.9	6.8	2,419.7	5,010.4	-	4,875.1
	Tsagaannuur	237.5	2.4	223.9	1,213.7	0.6	1,214.2	3,220.0	-	3,205.1
	Tsagaan-Uul	986.9	0.0	935.5	4,787.0	0.1	4,787.0	5,468.8	-	5,468.8
	Tsagaan-Uur	309.6	3.3	309.1	1,499.9	1.3	1,501.2	3,228.3	-	3,228.3
	Tsetserleg	643.8	0.0	580.4	3,199.8	68.5	3,268.3	5,304.7	-	5,304.7
	Chandmani-Undur	335.0	0.1	329.3	1,357.4	1.4	1,358.8	3,595.6	1.1	3,587.7
	Shine-Ider	390.8	-	379.7	3,133.4	-	3,133.4	3,680.5	-	3,680.5
	Erdenebulgan	387.7	1.4	344.4	3,208.6	1.0	3,209.6	3,930.6	-	3,898.7
Central region		**172,426.7**	**54,393.2**	**116,218.3**	**800,853.4**	**38,404.0**	**822,645.5**	**1,553,453.7**	**2,285.2**	**1,449,461.0**
Tuv	**Total**	**18,338.1**	**247.0**	**15,030.0**	**91,402.1**	**669.9**	**91,984.7**	**196,790.7**	**8.5**	**193,095.3**
	Zuunmod	5,967.9	45.3	3,969.6	33,535.7	288.6	33,755.9	66,857.0	8.2	63,478.2
	Altanbulag	484.3	0.0	472.2	1,892.0	0.0	1,892.0	6,082.7	-	6,082.7
	Argalant	263.5	-	196.0	1,004.9	0.4	1,005.4	2,704.3	-	2,672.7
	Arkhust	486.6	0.0	248.4	796.7	0.5	797.2	2,095.7	-	2,095.7
	Batsumber	916.4	0.2	750.0	2,466.3	6.3	2,472.7	8,185.5	-	8,185.5
	Bayan	310.3	0.0	308.5	1,686.4	0.0	1,686.4	5,941.6	-	5,941.6
	Bayan-Unjuul	376.5	195.3	355.9	2,786.0	237.9	3,023.9	4,080.4	0.3	4,080.7
	Bayandelger	273.2	-	248.5	866.9	-	866.9	2,116.6	-	2,116.6
	Bayanjargalan	263.8	0.0	260.8	2,629.9	0.1	2,629.9	1,773.7	-	1,773.7
	Bayankhangai	221.5	0.1	217.1	742.3	0.3	742.7	3,735.1	-	3,735.1
	Bayantsagaan	398.9	-	381.4	1,595.2	0.4	1,595.6	3,592.8	-	3,585.1
	Bayantsogt	274.5	0.0	204.5	1,509.7	-	1,509.7	2,986.6	-	2,986.6
	Bayanchandmani	638.8	0.1	625.5	3,050.2	8.0	3,058.2	6,778.3	-	6,768.0
	Bornuur	703.4	0.1	648.3	2,723.6	13.8	2,737.4	7,804.4	-	7,762.7
	Buren	380.3	0.1	365.5	3,198.1	2.4	3,200.5	5,785.6	-	5,785.6
	Delgerkhaan	270.2	0.0	269.9	2,130.9	-	2,130.9	3,649.1	-	3,649.1
	Zaamar	1,576.2	3.4	1,420.1	9,352.3	10.5	9,344.0	10,964.9	-	10,964.9
	Jargalant	985.7	0.1	849.3	4,695.0	60.8	4,755.8	14,851.3	-	14,769.3
	Lun	327.4	0.3	310.3	2,434.9	26.6	2,461.5	4,964.1	-	4,964.1

	Mungunmorit	227.8	0.0	226.6	1,051.0	-	1,051.0	3,086.4	-	3,086.4
	Undurshireet	357.8	-	351.6	1,485.3	0.0	1,485.3	3,922.4	-	3,922.4
	Sergelen	109.0	0.0	108.1	248.2	5.8	253.9	3,459.9	-	3,427.7
	Sumber	272.4	0.0	268.1	896.8	0.1	896.8	3,133.1	-	3,133.1
	Ugtaal	460.0	0.0	454.7	1,563.5	5.4	1,568.9	4,502.5	-	4,422.5
	Tseel	307.3	0.5	303.2	1,989.4	0.1	1,989.5	3,980.3	-	3,980.3
	Erdene	596.4	1.4	570.7	1,309.5	1.7	1,311.2	3,032.9	-	3,032.9
	Erdenesant	887.9	-	645.1	3,761.3	0.2	3,761.5	6,723.3	-	6,692.0
Govisumber	**Total**	**4,843.4**	**43.6**	**3,569.6**	**20,608.9**	**295.3**	**20,900.4**	**67,489.9**	-	**63,763.0**
	Sumber	3,650.8	43.5	2,896.5	17,868.8	289.3	18,154.3	54,494.2	-	50,854.2
	Bayantal	135.6	0.0	127.7	649.8	-	649.8	2,978.0	-	2,978.0
	Shiveegovi	1,057.0	0.1	545.4	2,090.3	6.0	2,096.3	10,017.7	-	9,930.9

Aimag/City	Soum/Village	Current account		Of which: Individuals	Time deposit		Of which: Individuals	Loans		Of which: Individuals
		Domestic currency	Foreign currency		Domestic currency	Foreign currency		Domestic currency	Foreign currency	
Selenge	**Total**	**32,010.7**	**602.5**	**20,502.5**	**103,055.0**	**3,130.3**	**105,919.5**	**300,884.9**	**1,130.7**	**290,565.5**
	Sukhbaatar	7,336.8	317.7	5,401.6	32,864.5	2,009.2	34,803.6	99,359.5	1,113.3	93,852.3
	Altanbulag	1,390.0	8.7	1,369.5	3,864.1	10.0	3,874.1	7,512.3	-	7,472.3
	Baruunburen	528.0	0.2	404.8	1,868.4	0.6	1,869.0	4,464.1	-	4,374.1
	Bayangol	1,641.1	24.0	1,420.1	4,229.7	110.4	4,340.1	11,863.9	-	11,836.9
	Yeruu	1,400.3	0.8	1,273.4	6,150.2	99.6	6,249.8	16,428.0	-	16,340.5
	Javkhlant	344.2	0.0	322.2	702.9	0.0	702.9	3,736.9	-	3,736.9
	Zuunburen	399.9	0.0	399.4	2,291.5	0.0	2,291.5	3,599.9	-	3,550.0
	Mandal	13,393.1	65.0	4,825.0	27,276.8	529.9	27,617.6	82,398.0	1.6	79,974.0
	Orkhon	216.5	-	210.4	758.5	-	758.5	3,395.3	-	3,395.3
	Orkhontuul	522.7	0.1	517.8	2,409.0	0.3	2,409.2	6,779.1	-	6,779.1
	Sant	301.0	0.0	293.2	946.0	0.4	946.3	6,573.7	1.1	6,574.8
	Saikhan	1,694.1	185.1	1,759.1	10,545.1	298.0	10,839.9	25,665.3	14.7	23,792.3
	Tushig	336.1	0.0	325.8	1,034.4	3.0	1,037.4	3,365.3	-	3,365.3
	Tsagaannuur	1,132.7	0.1	724.8	3,964.8	14.0	3,975.4	4,928.7	-	4,763.8
	Khushaat	351.4	0.5	283.8	1,182.6	0.1	1,182.7	3,934.2	-	3,896.3
	Khuder	443.6	0.0	400.7	1,325.1	50.9	1,376.0	6,523.2	-	6,504.2
	Shaamar	579.2	0.1	571.0	1,641.5	4.0	1,645.5	10,357.5	-	10,357.5
Dornogovi	**Total**	**22,317.9**	**7,878.9**	**16,181.4**	**112,467.1**	**5,780.4**	**113,966.7**	**288,657.8**	**956.5**	**276,529.5**
	Sainshand	11,539.4	7,063.3	6,395.5	48,293.7	1,866.7	49,534.8	123,569.4	873.4	115,668.4
	Airag	563.5	0.4	523.2	2,243.2	3.9	2,247.1	7,537.7	-	7,537.7
	Altanshiree	286.0	0.0	278.9	819.9	0.0	819.9	2,485.3	-	2,485.3
	Dalanjargalan	618.8	0.4	595.8	3,201.2	1.0	3,202.2	8,493.9	-	8,493.9
	Delgerekh	371.1	0.2	348.4	938.2	0.3	938.4	4,195.8	-	4,195.8
	Zamiin-Uud	5,785.3	796.9	4,983.0	42,744.9	3,818.9	42,908.6	107,111.2	81.7	102,975.2
	Ikhkhet	414.7	1.8	399.6	1,600.4	0.0	1,600.4	5,276.1	-	5,183.5
	Mandakh	326.8	0.0	316.6	1,634.1	0.1	1,634.2	3,049.1	-	3,049.1
	Urgun	424.2	0.6	416.5	1,415.6	74.9	1,490.5	5,894.1	-	5,894.1
	Saikhandulaan	226.2	2.2	227.0	733.6	0.1	733.8	2,773.2	-	2,773.2
	Ulaanbadrakh	311.1	0.0	290.3	1,650.8	0.1	1,650.9	2,681.9	-	2,681.9
	Khatanbulag	696.3	11.0	685.6	3,809.4	8.1	3,817.5	6,480.7	-	6,480.7

	Khuvsgul	320.0	2.2	315.4	1,484.4	1.9	1,486.4	3,490.5	-	3,490.5
	Erdene	434.6	0.0	405.7	1,897.5	4.5	1,902.1	5,618.8	1.4	5,620.2
Darkhan-Uul	**Total**	**35,829.2**	**3,211.8**	**27,969.8**	**242,765.7**	**18,972.1**	**260,591.3**	**296,544.5**	**159.5**	**257,678.8**
	Darkhan	33,314.4	3,206.4	25,824.5	228,326.2	18,484.2	245,663.9	266,789.8	141.5	228,301.3
	Khongor	759.9	0.3	741.3	3,111.9	30.8	3,142.7	9,981.5	-	9,726.9
	Shariin gol	1,507.3	2.9	1,183.5	9,778.1	456.7	10,234.8	14,464.6	18.0	14,482.6
	Orkhon	247.6	2.3	220.4	1,549.6	0.3	1,549.9	5,308.5	-	5,167.9
Umnugovi	**Total**	**48,790.3**	**42,288.0**	**24,000.6**	**163,387.0**	**9,047.1**	**161,627.6**	**286,628.6**	**30.0**	**257,330.6**
	Dalanzadgad	27,444.3	28,280.9	12,683.2	84,457.2	5,750.3	79,410.8	164,332.4	28.5	142,078.3
	Bayandalai	370.5	0.1	306.2	1,895.9	2.3	1,898.1	4,485.8	-	4,435.8
	Bayan-Ovoo	333.5	0.2	306.5	1,984.8	0.7	1,985.5	3,518.2	-	3,518.2
	Bulgan	418.9	1.0	374.1	2,254.7	3.8	2,258.5	3,828.1	-	3,828.1
	Gurvantes	6,009.2	6,976.4	2,427.0	16,132.0	600.4	16,732.4	12,277.8	-	12,222.6
	Manlai	555.6	8.0	496.4	6,039.4	3.7	6,043.1	3,454.4	-	3,454.4
	Mandal-Ovoo	605.0	2.9	361.8	1,714.9	0.4	1,715.3	3,865.1	-	3,642.3
	Nomgon	401.7	7.2	362.9	3,172.1	0.6	3,172.7	4,991.7	-	4,991.7
	Noyon	484.1	0.6	282.0	2,358.3	94.2	2,452.5	3,136.5	-	3,136.5
	Sevrei	484.1	0.3	444.1	4,087.2	5.3	4,092.5	2,803.2	0.8	2,804.0
	Khanbogd	3,776.0	637.7	2,590.1	19,138.7	1,111.3	20,240.2	33,360.3	0.7	32,966.2
	Khankhongor	379.1	-	295.4	964.3	0.6	964.9	3,084.8	-	3,084.8
	Khurmen	442.0	38.5	348.7	1,037.1	0.0	1,037.1	3,756.9	-	3,756.9
	Tsogt-Ovoo	270.1	0.0	201.3	2,017.2	26.3	2,043.4	3,434.5	-	3,434.5
	Tsogttsetsii	6,816.3	6,334.2	2,520.8	16,133.3	1,447.2	17,580.5	36,298.8	-	29,976.2
Dundgovi	**Total**	**10,297.1**	**121.5**	**8,964.4**	**67,167.8**	**508.9**	**67,655.3**	**116,457.4**	**-**	**110,498.2**
	Saintsagaan	3,837.7	109.8	3,040.4	26,090.1	382.0	26,455.0	54,625.4	-	49,188.0
	Adaatsag	368.0	0.0	352.2	2,097.7	-	2,097.7	6,396.4	-	6,396.4
	Bayanjargalan	336.5	0.0	323.0	1,604.6	0.9	1,605.5	3,597.7	-	3,597.7
	Govi-Ugtaal	283.0	0.0	273.1	3,250.5	-	3,250.5	3,530.7	-	3,476.0
	Gurvansaikhan	1,080.6	0.8	784.9	7,610.1	3.3	7,609.0	4,196.8	-	4,195.0
	Delgerkhangai	336.3	0.1	318.7	1,732.3	1.1	1,733.4	4,860.7	-	4,848.6
	Delgertsogt	426.1	0.0	420.6	1,132.3	0.1	1,132.4	3,290.2	-	3,264.2
	Deren	394.6	0.0	370.7	2,303.8	0.5	2,304.3	4,450.5	-	4,450.5
	Luus	393.2	0.0	318.8	2,832.2	-	2,832.2	3,565.9	-	3,367.5

	Ulziit	362.9	0.1	351.2	2,400.9	0.0	2,401.0	5,650.2	-	5,645.0
	Undurshil	251.6	0.1	240.1	3,331.4	30.3	3,361.6	3,593.6	-	3,546.5
	Saikhan-Ovoo	391.8	1.8	377.4	2,344.3	0.0	2,344.3	3,500.2	-	3,406.2
	Khuld	407.0	0.0	390.5	3,710.8	0.0	3,710.8	4,470.6	-	4,470.6
	Tsagaandelger	124.0	0.0	121.1	1,122.0	75.1	1,197.1	2,968.8	-	2,963.2
	Erdenedalai	1,303.7	8.7	1,281.7	5,604.9	15.8	5,620.7	7,759.6	-	7,682.8
Eastern region		**53,605.6**	**20,189.2**	**38,054.7**	**278,269.7**	**16,538.9**	**276,192.2**	**547,991.4**	**142.8**	**518,079.4**
Dornod	**Total**	**22,773.8**	**13,826.4**	**15,268.6**	**101,635.6**	**5,087.3**	**105,198.5**	**224,053.3**	**132.4**	**205,508.4**
	Kherlen	17,962.7	13,681.8	10,703.4	80,586.4	5,005.3	84,072.3	164,220.9	132.4	145,756.5
	Bayandun	497.2	0.0	451.5	2,509.2	19.9	2,529.1	6,241.0	-	6,241.0
	Bayan-Uul	463.7	0.0	451.8	2,140.7	0.5	2,136.2	7,817.1	-	7,817.1
	Bayantumen	170.9	0.0	119.3	853.2	1.0	854.2	2,040.6	-	2,040.6
	Bulgan	307.3	-	300.8	731.9	22.3	754.2	3,223.8	-	3,149.0
	Gurvanzagal	290.4	-	283.5	1,397.2	0.0	1,397.3	2,964.7	-	2,964.7
	Dashbalbar	455.2	0.7	434.2	2,926.9	0.0	2,926.9	6,418.5	-	6,418.5
	Matad	519.4	143.0	519.0	1,835.9	3.2	1,839.1	2,911.9	-	2,911.9
	Sergelen	421.1	-	403.4	1,265.8	-	1,265.8	3,441.0	-	3,441.0
	Khalkhgol	501.1	0.8	478.9	1,849.0	26.2	1,875.3	6,828.7	-	6,823.0
	Khulunbuir	197.5	0.0	190.1	1,063.6	0.1	1,063.7	3,143.7	-	3,143.7
	Tsagaan-Ovoo	371.7	0.0	337.2	2,293.5	8.0	2,301.5	6,211.2	-	6,211.2
	Choibalsan	377.6	0.0	364.7	1,200.7	-	1,200.7	4,362.8	-	4,362.8
	Chuluunkhoroot	238.0	0.0	230.7	981.6	0.6	982.1	4,227.4	-	4,227.4

Aimag/City	Soum/Village	Current account: Domestic currency	Current account: Foreign currency	Of which: Individuals	Time deposit: Domestic currency	Time deposit: Foreign currency	Of which: Individuals	Loans: Domestic currency	Loans: Foreign currency	Of which: Individuals
Sukhbaatar	**Total**	**16,666.5**	**5,823.1**	**10,981.1**	**80,630.8**	**9,915.1**	**73,702.7**	**142,414.7**	**1.7**	**137,206.3**
	Baruun-Urt	9,235.1	4,459.5	3,977.9	32,709.1	395.5	27,821.8	59,793.9	1.7	57,277.9
	Asgat	476.5	-	452.5	2,972.9	99.2	3,072.2	4,202.5	-	4,172.1
	Bayandelger	688.9	26.2	695.8	5,785.9	2,734.1	8,520.0	7,689.0	-	7,657.5
	Dariganga	621.0	0.2	601.0	3,804.1	12.1	3,816.2	3,768.1	-	3,757.8
	Munkhkhaan	564.5	0.1	556.6	4,012.2	0.7	4,012.9	8,126.2	-	8,126.2
	Naran	400.6	-	379.5	1,975.6	0.3	1,976.0	2,305.7	-	2,305.7
	Ongon	674.8	0.8	631.5	3,815.7	9.0	3,824.6	7,482.6	-	7,482.6
	Sukhbaatar	1,308.6	1,320.3	1,140.3	13,394.1	6,594.2	8,427.8	20,051.6	-	17,495.3
	Tuvshinshiree	434.7	0.0	423.4	1,627.8	0.1	1,627.9	5,523.9	-	5,523.9
	Tumentsogt	494.9	0.1	430.2	2,717.7	24.1	2,741.8	3,447.3	-	3,394.8
	Uulbayan	339.0	-	328.7	1,669.4	1.2	1,670.6	4,836.5	-	4,836.5
	Khalzan	313.3	-	311.1	1,681.7	-	1,681.7	2,396.2	-	2,396.2
	Erdenetsagaan	1,114.6	15.9	1,052.5	4,464.5	44.6	4,509.1	12,791.2	-	12,779.8
Khentii	**Total**	**14,165.3**	**539.7**	**11,805.0**	**96,003.4**	**1,536.5**	**97,291.0**	**181,523.4**	**8.6**	**175,364.7**
	Kherlen	5,231.5	21.3	3,850.4	41,671.7	1,081.3	42,601.1	71,285.6	2.4	66,140.9
	Batnorov	420.1	0.0	402.1	3,282.8	0.5	3,283.3	5,261.9	-	5,243.3
	Batshireet	311.8	0.2	288.3	2,682.0	0.7	2,682.7	2,923.5	-	2,923.5
	Bayan-Adargana	349.9	0.0	307.9	1,770.2	0.0	1,770.2	3,283.1	-	3,276.1
	Bayanmunkh	288.9	0.0	281.5	1,929.9	-	1,929.9	3,019.8	-	3,019.8
	Bayan-Ovoo	268.1	-	246.5	2,175.3	-	2,175.3	4,140.5	-	4,128.9
	Binder	944.2	0.0	653.3	3,584.8	5.1	3,589.9	4,219.3	-	4,169.3
	Galshar	248.8	0.0	242.1	999.1	0.0	999.1	4,138.2	-	4,138.2
	Gurvanbayan	164.1	0.2	148.8	865.6	0.0	865.7	5,407.5	-	5,391.0
	Dadal	283.3	0.0	254.5	3,713.8	3.3	3,717.1	4,428.6	-	4,428.6
	Darkhan	273.7	0.0	241.4	4,091.0	0.9	4,091.9	4,136.6	-	4,136.6
	Bor-Undur	2,103.7	514.5	1,778.4	12,023.7	424.3	12,351.0	29,498.2	5.7	28,650.5
	Delgerkhaan	336.1	1.3	321.1	1,617.1	0.1	1,617.3	5,310.0	-	5,304.8
	Jargaltkhaan	327.5	0.0	324.8	2,035.7	0.9	2,036.5	3,510.5	-	3,476.8
	Murun	341.1	-	327.8	562.8	-	562.8	3,814.4	-	3,814.4

	Norovlin	394.4	0.1	331.2	3,044.0	11.5	3,055.5	3,699.0	-	3,699.0
	Umnudelger	814.7	0.0	784.3	3,601.3	1.0	3,602.2	6,444.0	-	6,444.0
	Berkh	481.0	1.9	467.3	3,896.5	3.0	3,899.5	5,160.6	0.5	5,161.2
	Tsenkhermandal	278.1	0.0	255.0	1,515.5	3.8	1,519.4	5,331.9	-	5,307.6
	Bayankhutag	256.2	-	251.5	609.0	0.1	609.2	4,565.5	-	4,565.5
	Ulziit	48.0	-	46.8	331.5	-	331.5	1,944.6	-	1,944.6
Regional total		**464,013.2**	**122,215.9**	**316,356.9**	**2,451,597.8**	**130,385.6**	**2,503,240.9**	**4,222,939.1**	**6,260.4**	**3,950,070.7**
Ulaanbaatar		**2,833,876.2**	**2,198,158.0**	**865,963.7**	**8,056,078.0**	**3,281,172.4**	**9,660,364.1**	**11,735,528.0**	**1,967,521.2**	**5,316,317.0**