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THE BANK OF MONGOLIA
CENTRAL BANK OF MONGOLIA

ANNUAL REPORT 2020



THE BANK OF MONGOLIA



ANNUAL REPORT 2020

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.

It was a year marked with facing unprecedented challenges economically and socially. The Mongolian economy contracted by 5.3 percent in 2020, the worst contraction in the past 20 years, driven by non-economic shock. Despite the COVID-19 pandemic affecting every country across all sectors and people's lives, we successfully overcame economic and financial challenges together. In this regard, highlighting 3 crucial courses of actions:

First, the Bank of Mongolia is taking necessary measures following international experience and laws to reduce the negative impact on the economy and the financial sector, to alleviate the financial difficulties and pressures of citizens, businesses, and financial institutions during the COVID-19 pandemic. The monetary policy outlook was eased through countercyclical measures, and the policy rate was reduced from 11 percent to a historically low of 6 percent. These policy measures will have a direct impact on economic recovery and lower interest rates. Second, Mongolia was removed from the Financial Action Task Force (FATF)'s list of jurisdictions under increased monitoring in a short amount of time. The European Commission also decided to remove Mongolia from its list of high-risk third countries with strategic deficiencies in their regime on anti-money laundering and counter-terrorist financing. Third, the togrog's exchange rate has remained stable despite the pandemic. This was mainly due to an increase in the Bank of Mongolia's gold purchases, foreign direct investment remaining at the previous year's level, and inflows from international financial institutions and donors. Furthermore, the short-term external debt burden facing several sectors was eased. The currency swap agreement with the People's Bank of China was extended for another three years, and the Chinggis and Mazaalai bonds were refinanced through 600 million USD raised by the Nomad bond.

We have completed the IMF Extended Fund Facility program in 2020 and continued closely cooperating with international financial institutions and donors. The Bank of Mongolia has approved and started implementing a medium-term strategy, policy, and program in cooperation with the relevant authorities. The Parliament has approved the Strategy to reduce the lending rate and the State Monetary Policy Guidelines for 2021, and the Bank of Mongolia approved the Banking Sector Reform Program. These documents are interconnected and aim at maintaining economic and financial stability. Within this framework, the inflation target has been updated to 6 percent from 2021, and the weighted average interest rate on bank loans has been aimed to be reduced to 12 percent by the end of 2023. In 2020, inflation remained at the medium-term target, the average interest rate on new loans fell by 1.2 percentage points, the amount of gold purchased domestically by the central bank reached a historical high of 23.6 tons, and international reserves exceeded 4.5 billion USD.

Taking into consideration the contraction of the real economy and accumulation of risk in the financial sector due to the pandemic, the Bank of Mongolia took prompt measures to protect businesses and individuals and ensure the stability of the banking system. In March 2020, temporary amendments to be enforced under extraordinary circumstances were made to the Regulation on asset classification, provisioning and its disbursements, which allowed to restructure the distressed loans and payment deferrals. As part of these forbearance measures, the payments of MNT 1.27 trillion in consumer loans of 141,171 lenders, MNT 2.8 trillion in business loans of 2,540 enterprises, and MNT 2.3 trillion in mortgage loans of 44,956 households were postponed at the end of 2020.

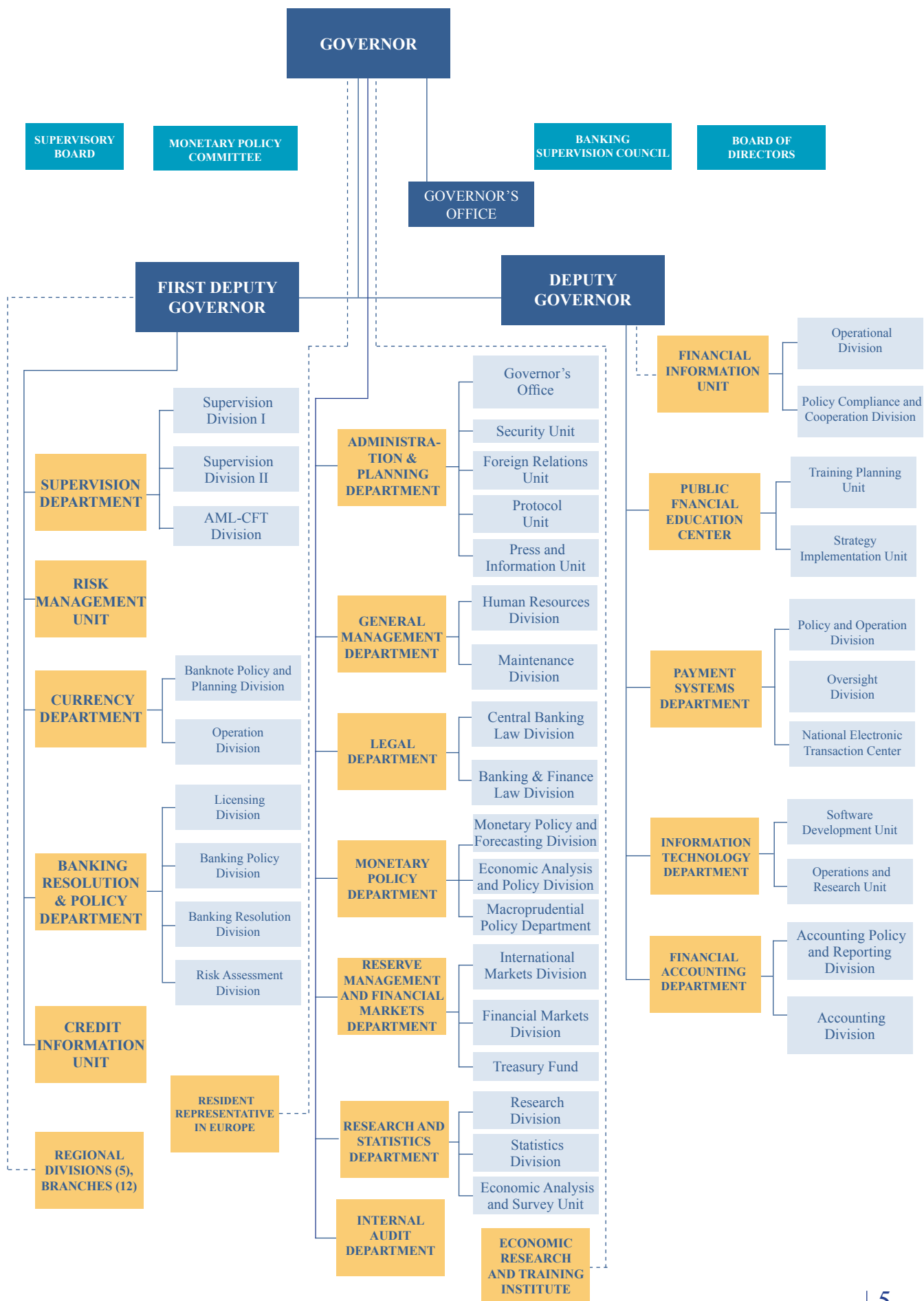
Although the challenge will continue in 2021, the outlook for the economy is optimistic. The global economic recovery will continue as COVID-19 vaccination is underway. The effectiveness of fiscal and monetary policy measures to support the domestic economy will increase in the future. As a result, the economy will continue to recover gradually, growing by about 6 percent next year, inflation will remain on target, and pressure on the balance of payments will ease. The public-private partnership, confidence, and leadership in turning challenges into opportunities will play a key role in ensuring economic recovery and its impact on every citizen and business entity. The Bank of Mongolia will continue its policies and measures in sustaining the economy and creating a favorable financial environment.

LKHAGVASUREN B.



GOVERNOR OF THE BANK OF MONGOLIA

ORGANIZATIONAL STRUCTURE OF THE BANK OF MONGOLIA



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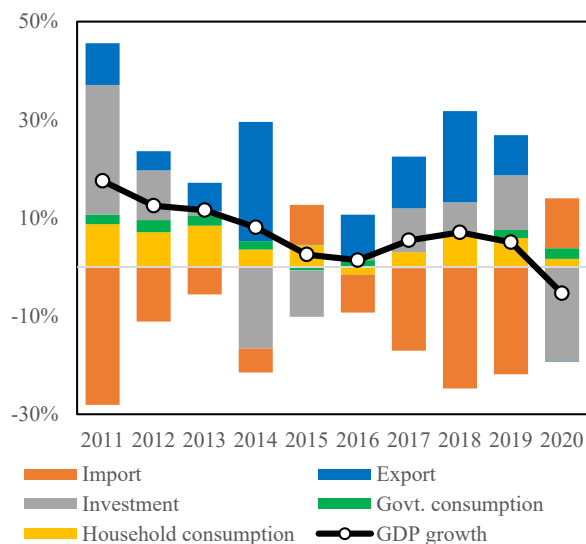
1.1 REAL SECTOR

Real sector of the economy

The Gross domestic product (GDP) decreased by 5.3%¹ compared to the previous year. The change in GDP consisted of the following contributions. Net exports contributed 10.1%, final consumption² (i.e. including both household and government consumption) contributed 3.8%, and gross fixed capital formation contributed -19.3%.

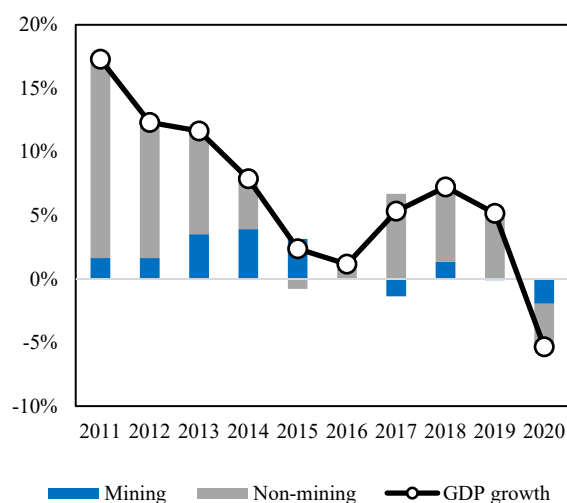
Due to the COVID-19 pandemic, the import of goods and services fell by 8.9%, boosting economic growth by 10.2%, year-over-year. Mining exports, which account for the majority of exports, increased by 4%, whereas non-mining exports decreased by 38%, resulting in total exports declining by 0.08% and economic growth falling by 0.1%. Thus, net exports positively contributed a total of 10.1% to real GDP growth. Government consumption, year-over-year, had a positive contribution of 2.2%, and household consumption had a positive contribution of 1.6% to real GDP growth. Comparatively, net investment inflow, year-over-year, decreased by 42.5%³, resulting in the largest negative contribution of 19.3% to Mongolia’s economic growth (Figure 1.1).

Figure 1.1: GDP growth, expenditure approach



Source: The National Statistics Office of Mongolia

Figure 1.2: GDP growth, production approach



Source: The National Statistics Office of Mongolia

The value added by the mining and quarrying sector declined by 9.4% compared to the previous year, negatively affecting economic growth by 2%. This was mainly due to lower border prices for coal mining and exporting. However, the global price increase of gold, copper and iron ore offset this negative impact by a significant margin.

¹ GDP growth measured by production approach

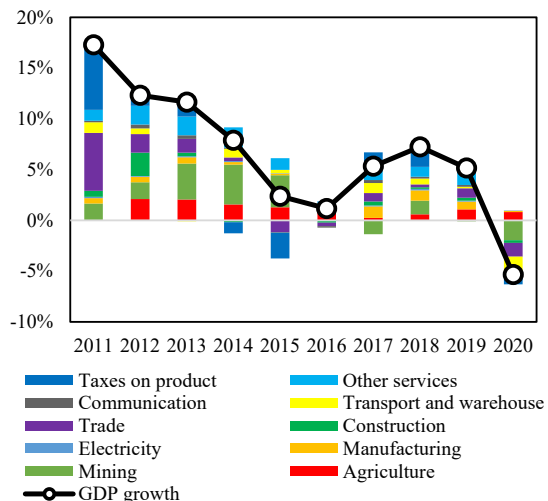
² Real GDP growth, calculated using the end-use method is 5.4%

³ This was mainly caused by investment contractions in the mining sector

Non-mining sector

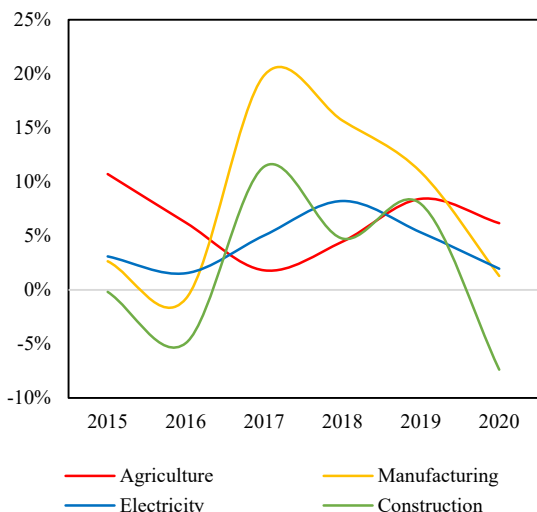
The non-mining sector slowed overall economic growth by 3.4%. The majority of this decline in economic growth can be attributed to the following sectors: The transportation and warehousing sector fell by 20.1%, contributing -1.5%. The trade sector fell by 11.1%, contributing -1.4%. Construction fell by 7.4%, contributing -0.3%. Finally, the service sector fell by 0.8%, contributing -0.2% to Mongolia's economic growth this year (Figure 1.3).

Figure 1.3: GDP growth by production sectors



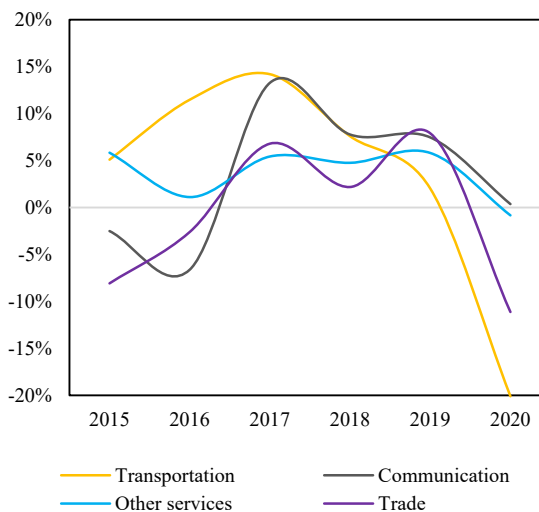
Source: The National Statistics Office of Mongolia

Figure 1.4: The growth of agriculture and manufacturing



Source: The National Statistics Office of Mongolia

Figure 1.5: The growth of service sector



Source: The National Statistics Office of Mongolia

Inflation

As stated in the Monetary Policy Guidelines for 2020, the Bank of Mongolia's objective is to stabilize consumer price inflation under 8 percent in 2020 and around 6 percent in the medium-term.

The disinflationary trend continued throughout 2020, and nationwide headline inflation fell to 2.3 percent at the end of the year. COVID-19 pandemic aggravated uncertainties in external and domestic economic conditions and thus contracting business activities in 2020. Therefore, core inflation gradually slowed down while headline inflation went down to an even lower level due to supply-driven factors (Figure 1.6).

At the beginning of 2020, despite the sluggish consumer loan growth, demand-driven inflationary pressure was expected to be modest due to higher wage and pension and one-time cancellation of pension-backed loan debts supporting consumption. However, the spread of the pandemic and preventive measures weakened domestic demand. The demand-driven inflation had declined throughout the year due to the prevailing negative impact

of the pandemic, even though a set of macro stabilization policy measures aimed at mitigating the negative shock had a stimulating effect on demand.

Annual headline inflation stayed low level as a result of supply-driven factors remaining subdued in 2020. Particularly, lower prices on gasoline and solid fuel had a decelerating effect on inflation, which accounted for minus 2.6 percentage points of inflation. Meat price, the usual main driver of inflation in previous years, accounted for 1.1 percentage points of inflation.

Figure 1.6 Monthly and annual inflation

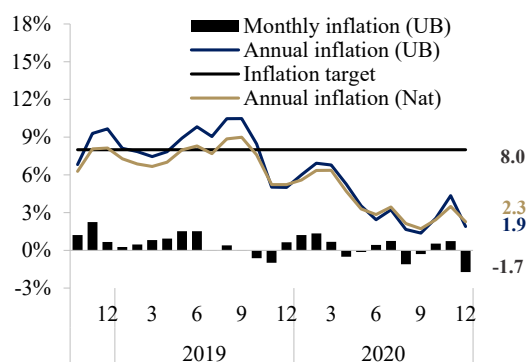


Table 1.1 Inflation contribution by products

Product	Basket weight	Annual growth	Contribution to annual inflation
Meat	0.10	11.9%	1.1%
Vegetable	0.02	20.3%	0.4%
Gasoline	0.06	-18.4%	-1.0%
Solid fuel	0.03	-33.2%	-1.6%
Total	0.21		-1.1%

Products that have a greater impact on inflation:

- **Meat price:** It usually decreases from mid-June to mid-December according to its seasonal patterns. However, meat price and its contribution to inflation increased due to a strong consumer tendency to reserve food in some months of 2020. Subsequently, after a domestic outbreak of COVID-19, meat price increased contrary to its seasonal trend in November and stabilized in December.
- **Gasoline price:** In line with a sharp decline of global oil price, domestic gasoline price dropped by around MNT 400 in the second quarter. This negatively affected inflation in the remaining part of the year.
- **Solid fuel price:** It is one of the main supply-side inflation drivers and it had a decelerating effect on inflation in the last month of 2020. Inflation was down by 1.6 percentage points. The part of a Government measure to mitigate adverse effects of the pandemic was to set household use refined coal price to be at half-price from December 3, and again half of that on December 14, making it to be one-fourth original price, effective until April 1, 2021.

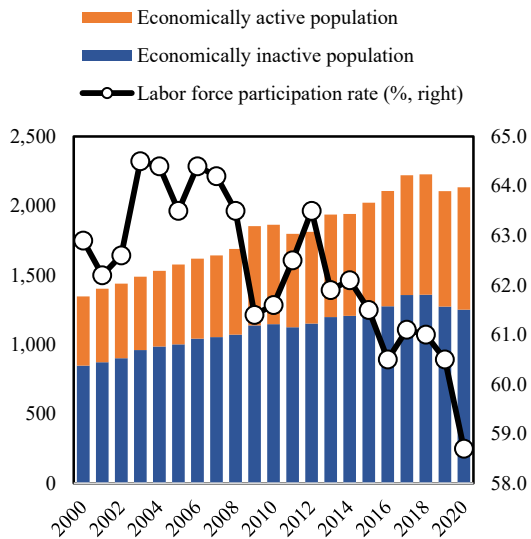
Employment

In 2020, compared to the previous year, the working-age population increased by 1.3% and reached 2,133.3 thousand. In particular, the number of the economically active population declined by 1.7%, reaching 1,251.8 thousand, while the inactive population rose by 5.9%, reaching 881.5 thousand. The labor force participation rate fell by 1.8% and reached 58.7% due to a decrease in the economically active population and an increase in the economically inactive population (Figure 1.6).

Within the economically active population, the total number of employed workers increased by 1.6%, amounting to 1,164.1 thousand. However, the total number of unemployed workers⁴, decreased by 31.3% to 87.8 thousand compared to the same period of the previous year. Due to the rapid decrease in the number of unemployed workers, the unemployment rate decreased by 3%, reaching 7% year-over-year (Figure 1.8).

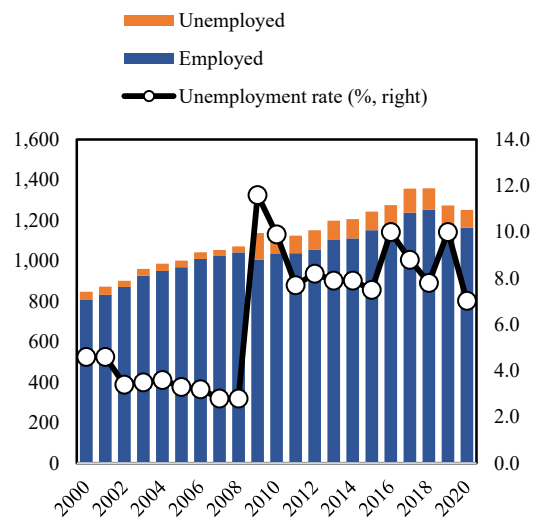
⁴ Unemployed citizens of legal working-age and able to work, actively looking for a paid job, ready to work at the time, registered at a private labor exchange, not have a paying job, and not self-employed.

Figure 1.7: Labor force participation rate



Source: The National Statistics Office of Mongolia

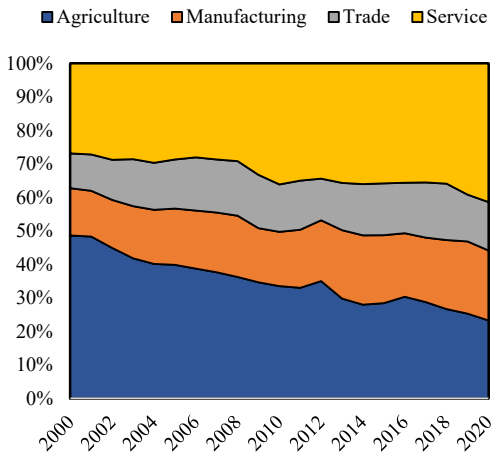
Figure 1.8: Unemployment rate



Source: The National Statistics Office of Mongolia

In 2020, the total number of employed workers by key sectors of the economy consists of 481.4 thousand (41.4% of the total labor force) in the service sector, 271.2 thousand (23.3% of the total labor force) in the agricultural sector, 243.3 thousand (20.9% of the total labor force) in the manufacturing sector, and 168.1 thousand (14.4% of the total labor force) in the trade sector (Figure 1.8). Compared to the previous year, both the trade and service sectors experienced a large rise in employment, increasing by 4.8% and 7.4%, respectively. Whereas the agriculture and manufacturing sector experienced a sharp decline in unemployment by 6.5% and 1.6%, respectively.

Figure 1.9: Employment, by production sectors



1.2. EXTERNAL SECTOR

Balance of Payments

In 2020, Mongolia’s overall balance of payments reached a surplus of 787 million USD, which is an increase of 334 million USD from the last year. Specifically, the current and capital account recorded a deficit of 572 million USD, the financial account recorded a surplus of 1,504 million USD and the statistical errors and omissions recorded to be a negative 146 million USD.

Figure 1.10 Balance of Payment (million USD)

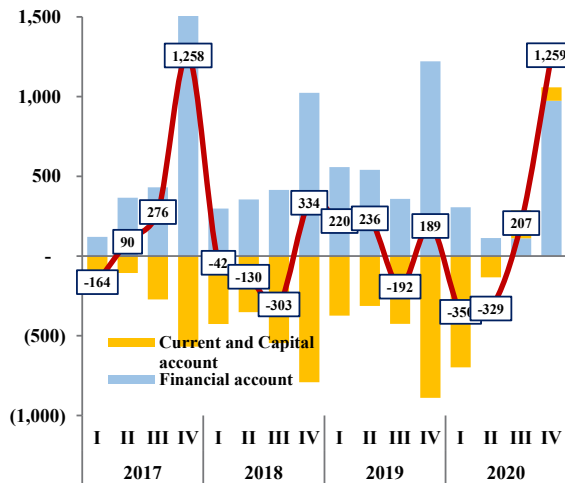
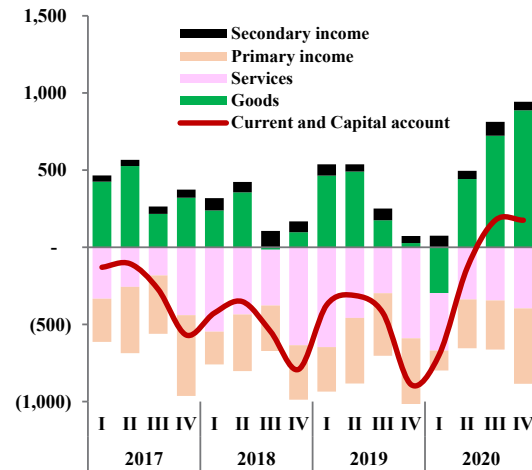


Figure 1.11. Current and Capital account composition (million USD)



Source: The Bank of Mongolia

In 2020, the current and capital account deficit decreased by 71 percent or 1,429 million USD from the previous year. This improvement can mainly be attributed to an increase of 52 percent or 597 million USD in goods account surplus and a decrease of 27 percent or 541 million USD in service account deficit.

Figure 1.12. Financial account composition (million USD)

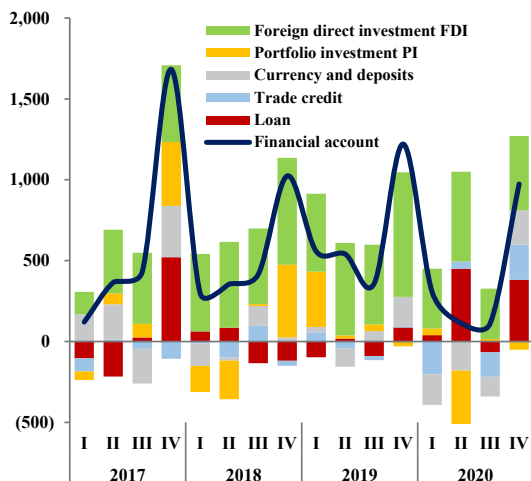
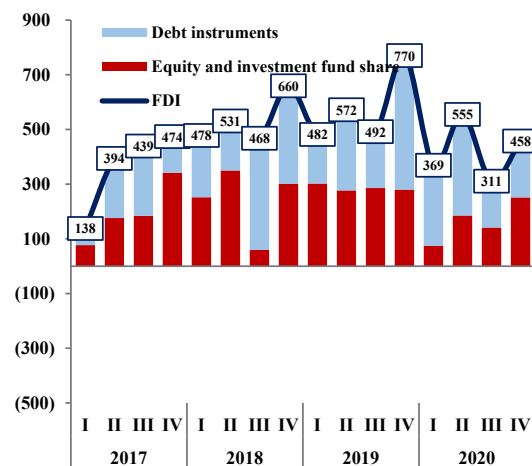


Figure 1.13. FDI composition (million USD)



Source: The Bank of Mongolia

In 2020, the financial account surplus decreased by 44 percent or 1,173 million USD from the previous year and reached 1,504 million USD.

Trade in goods

The trade balance of Mongolia recorded a surplus of 2,277 million USD in 2020, recording a surplus for seven consecutive years.

Table 1.2. Foreign trade performance (million USD)

Category	2018	2019	2020	Change (20'/19')	
				Value	%
Turnover	12,887	13,747	12,875	-872	-6%
Export	7,012	7,620	7,576	-43	-1%
Import	5,875	6,128	5,299	-829	-14%
Balance	1,137	1,492	2,277	785	53%

Source: Mongolian Custom general administration

Trade balance increased by 53 percent or 785 million USD from the previous year and reached 2,277 million USD. Specifically, import decreased by 14 percent or 829 million USD, and export decreased by 1 percent or 43 million USD from the previous year. Consequently, trade turnover decreased by 6 percent or 872 million USD year-over-year.

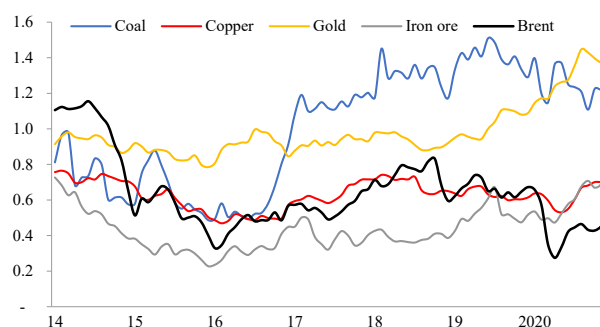
Export: Compared to 2019, the export of coal dropped by 951 million USD, crude oil by 216 million USD, and fluor spar, leucite, and nepheline by 49 million USD. The increase in gold export by 1,369 million USD offset the decline in export and boosted mining exports by 4 percent to 289 million USD.

However, the decline in the export of animal husbandry-related products by 39% or USD 189 million and the decline in industrial products by 38% or USD 141 million from the previous year mainly contributed to the decrease in total exports.

Gold price: The gold price index rose by 25 percent in 2020 from the previous year due to the economic slump driven by the COVID-19 pandemic in which the Federal Reserve Bank of the United States made its first policy rate cut since 2008.

Copper price: Refined copper prices on the London Metal Exchange rose by 28 percent in December 2020 from the previous year, driven by the expectation of global economic recovery after COVID-19 vaccine.

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



Source: Bloomberg

Coking coal price: As the domestic coal supply of the People's Republic of China resumed normal production levels, their demand for imported coal has declined. Thus, the border price of coal fell in the first half of the year. However, the price began to recover in the last quarter of 2020 due to the People's Republic of China's import restriction on Australian coal, which resulted in their state-owned power plants raising the price per tonne to maintain steady supply levels.

Iron ore price: Iron ore price rose to a record high of 155 million USD in December due to high demand for iron ore as Chinese factories resume normal operation.

Crude oil price: The average price of crude oil dropped by 33 percent in 2020 compared to last year, as the United States increased its oil production. The price further plummeted as oil facilities filled up due to increased supply. But the price level improved in the second half of the year as OPEC countries agreed to limit production levels.

Table 1.3. Export of goods (million USD)

Category	2019			2020			Change	
	Volume (unit)	Value	%	Volume (unit)	Value	%	Value	%
1. Mining products		6,751	89%		7,040	93%	289	4%
1.1. Copper ores and concentrates	1,404	1,796	24%	1,395	1,778	23%	(18)	-1%
1.2. Coal	36,467	3,074	40%	28,587	2,124	28%	(951)	-31%
1.3. Crude oil	6,545	367	5%	4,071	151	2%	(216)	-59%
1.4. Iron ores and concentrates	8,449	576	8%	8,206	640	8%	64	11%
1.5. Non-monetary gold /kg/	9,069	418	5%	30,491	1,788	24%	1,369	327%
1.6. Zinc ores and concentrates	135	189	2%	134	168	2%	(21)	-11%
1.7. Fluorspar, leucite, nephile etc.	699	206	3%	679	156	2%	(49)	-24%
1.8. Molybdenum ores and concentrates	6	49	1%	6	41	1%	(8)	-17%
1.9. Tungsten ores and concentrates	1	7	0%	0	1	0%	(6)	-89%
1.10. Silver/tonnes/	-	-	-	201,586	124	2%	124	-
1.11. Other	156	69	1%	112	70	1%	1	1%
2. Animal products	312	481	6%	200	292	4%	(189)	-39%
2.1. Live animals, meat	40	84	1%	21	41	1%	(43)	-51%
2.2. Hide, skin and leather	244	13	0%	158	7	0%	(6)	-48%
2.3. Entrails	1	9	0%	1	9	0%	0	5%
2.4. Cashmere	8	344	5%	9	220	3%	(125)	-36%
2.5. Wool, other hair	17	28	0%	11	14	0%	(14)	-50%
2.6. Other	3	2	0%	0	1	0%	(1)	-51%
3. Horticultural products	62	16	0%	46	14	0%	(2)	-13%
4. Manufacturing goods	390	372	5%	206	230	3%	(142)	-38%
4.1. Food	23	59	1%	25	68	1%	9	15%
4.2. Cashmere goods	1	46	1%	1	33	0%	(12)	-27%
4.3. Other apparel, footwear etc	4	20	0%	5	16	0%	(4)	-20%
4.4. Mining products	180	121	2%	26	70	1%	(51)	-42%
4.5. Electronic goods	0	1	0%	0	1	0%	(0)	-16%
4.6. Machinery, equipment and their parts	4	118	2%	2	38	0%	(80)	-68%
4.7. Other	179	7	0%	147	5	0%	(3)	-35%
5. Other	1	1	0%	0	1	0%	0	12%
Total		7,620			7,576		(43)	-1%

Source: Mongolian Customs and Bank of Mongolia

Import: Import expenditures decreased by 14 percent or 829 million USD in 2020 from the previous year. These can be explained by the following:

- Import of capital goods decreased by 14 percent or 371 million USD due to the economic slowdown from the COVID-19 domestic outbreak. In particular, imports of machinery, mechanical equipment and parts, and imports of construction materials decreased by 21 percent and 8 percent, respectively.
- Import of fuel items decreased by 349 million USD, mainly due to the lower prices from the increased supply of petroleum products on the global market.
- Import of consumer goods decreased by 88 million USD, mainly due to the decline in imports of passenger cars and parts by 123 million USD.

Table 1.4. Import of goods (million USD)

Category	2019		2020		Change	
	Value	%	Value	%	Value	%
Consumer goods	1,631	27%	1,542	29%	(88)	-5%
Non-durables	859	14%	878	17%	19	2%
<i>Food</i>	605	10%	613	12%	7	1%
<i>Medical and pharmaceutical products</i>	109	2%	120	2%	11	10%
<i>Other non-durables</i>	145	2%	146	3%	1	0%
Durables	772	13%	664	13%	(108)	-14%
<i>Clothing</i>	68	1%	73	1%	5	7%
<i>Household electrical appliances and furniture</i>	109	2%	107	2%	(3)	-2%
<i>Passenger cars and parts</i>	508	8%	384	7%	(123)	-24%
<i>Other durables</i>	86	1%	100	2%	13	16%
Capital goods	2,661	43%	2,290	43%	(371)	-14%
Machinery, equipment, supplies and vehicles	1,801	29%	1,419	27%	(382)	-21%
Construction materials	654	11%	599	11%	(54)	-8%
Other capital goods	206	3%	272	5%	65	32%
Intermediate goods and industrial materials	665	11%	634	12%	(30)	-5%
Fuels	1,166	19%	817	15%	(349)	-30%
Diesel	669	11%	432	8%	(237)	-35%
Gasolines A92-95	289	5%	222	4%	(68)	-23%
Gasolines A80 and other fuels	207	3%	163	3%	(44)	-21%
Other	5	0%	15	0%	9	172%
Total	6,128		5,299		(829)	-14%

Source: Mongolian Customs and, Bank of Mongolia

Trade in services

The deficit in services account contracted by 27% in 2020 from the previous year, reaching 1,450 million USD.

The significant factors contributing to the services account deficit were the following: transport service deficit decreased by 64%, amounting to 212 million USD, other business service deficit decreased by 37%, amounting to 343 million USD, and an increase in travel service deficit was due to a decline in travel service revenue because of the COVID-19 pandemic.

Table 1.5. Foreign trade in services (USD million)

Service account	2018	2019	2020	Change (20'/19')	
				Value	%
1. Transportation	-561	-594	-212	-382	-64%
2. Travel	-415	-412	-521	109	26%
3. Construction services	-165	-107	-97	-10	-10%
4. Insurance services	-21	-23	-21	-2	-7%
5. Financial services	-121	-207	-145	-62	-30%
6. Royalties and license services	-15	-25	-23	-2	-7%
7. Communication, computer and information services	-64	-55	-70	15	28%
8. Other business services	-590	-546	-343	-202	-37%
9. Other services	-27	-23	-18	-5	-24%
Total services	-1978	-1992	-1450	-541	-27%

Source: Bank of Mongolia

International investment position

Mongolia's net international investment position reached -37,318 million USD at the end of 2020, which is a 4 percent or 1,487 million USD increase year-over-year. Mongolia's total investment abroad or net foreign assets stood at 7,930 million USD, of which 57 percent was in foreign exchange reserve, 30 percent in other investment, and the remaining 4 percent in portfolio investment.

The total investment in Mongolia or net foreign liabilities stood at 45,248 million USD, of which 54 percent was in direct investment liabilities, 36 percent in other investments, and the remaining 10 percent in portfolio investment.

Out of the total foreign direct investment in Mongolia, 53 percent or 12,801 million USD was in the form of shareholders' investment on share capital, while 47 percent or 11,406 million USD were stock of loans from parent companies so-called inter-company lending.

Table 1.6. Mongolia's international investment position, at the end of 2020 (USD million)

A. Foreign assets	7,930	B. Foreign liabilities	45,248
1. Direct investment abroad	697	1. Foreign direct investment in Mongolia	24,207
2. Portfolio investment	344	2. Portfolio investment	4,645
3. Financial derivatives	4	3. Financial derivatives	0
4. Other investment	2,359	4. Other investment	16,396
5. Reserve assets	4,526		
<i>Source: The Bank of Mongolia</i>		C. POSITION	-37,318

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

- The short position in foreign direct investment and other investments increased by 1,619 million USD and 893 million USD, respectively.
- The short position in portfolio investment decreased by 6 million USD.
- The foreign exchange reserves increased by 4 percent or 185 million USD compared to the previous year.

Table 1.7. Changes in IIP (USD million)

Indicators	2018	2019	2020	Change (20'/19')	
				Amt	%
Foreign direct investment	-19,690	-21,891	-23,510	-1,619	7%
Portfolio investment	-4,589	-5,146	-4,301	846	-16%
Financial derivatives	-1	9	4	-6	-61%
Other investment	-12,891	-13,144	-14,037	-893	7%
Reserve assets	3,542	4,341	4,526	185	4%
Total position	-33,630	-35,831	-37,318	1,486	4%

Source: Bank of Mongolia

External debt

Mongolia's outstanding external debt totaled 32,362 million USD at the end of 2020 which is an increase of 5 percent or 1,660 million USD compared to the previous year. The change in external debt stock can be mainly explained by the following factors:

The government external debt increased by 11 percent or 848 million USD due to increased concessional borrowing from foreign organizations and financial institutions by the government.

The central bank external debt increased by 12 percent or 236 million USD due to using loans from the International Monetary Fund program, gold financing, and current account growth.

The private sector external debt increase was mainly due to a rise in intercompany loans. Intercompany lending from the parent company increased by 10 percent or 1,040 million USD. The external debt of commercial banks decreased by 23 percent or 487 million USD.

The share of Government external debt portion in GDP maintained between 29-41 percent during 2013-2016. However, it increased to 66 percent in 2017, and it decreased to 59 percent and 57 percent in 2018 and 2019, respectively. The share portion increased to 66 percent in 2020 due to a drop in GDP and the increased use of foreign loans (the Development Bank of Mongolia's external debt is classified as other sectors per international practice).

1.3 MONEY AND FINANCIAL SECTOR

Money and Credit indicators

The money supply or M2⁵ grew at an annual rate of 7% at the end of 2019 and was growing steadily since the second half of 2020, reaching 16.3 percent or 24.2 trillion MNT at the end of the year. On the liabilities side, the growth of other deposits⁶, especially domestic currency, have contributed a 10.9% increase in M2 growth. Compared to the previous year, MNT deposits increased by 2,278.7 billion MNT, foreign currency current accounts rose by 154.7 billion MNT, and foreign currency deposits decreased by 343.6 billion MNT. M1⁷ has increased since the second half of 2020, contributing 6.2% to the total money supply growth. Further breakdown of the M1 monetary system reveals current accounts in domestic currency increased by 1,158 billion MNT, and currency outside of depository corporations increased by 138.7 billion MNT (Figure 1.15).

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

Indicators	2018	2019	2020	Change (20'/19')	
				Amt	%
Total external debt	28,715	30,702	32,362	1660	5%
I. Government	7,184	7,806	8,654	848	11%
(Gov) GDP	59%	57%	66%	9%	16%
II. Central bank	2,030	1,985	2,221	236	12%
III. Deposit-taking corporations (Other than Central bank)	2,230	2,138	1,651	-487	-23%
Short-term	764	610	594	-16	-3%
Long-term	1,466	1,528	1,057	-471	-31%
IV. Other sector	8,042	8,407	8,430	23	0%
Short-term	609	562	683	121	22%
Long-term	7,433	7,845	7,747	-98	-1%
V. Intercompany lending	9,228	10,366	11,406	1040	10%

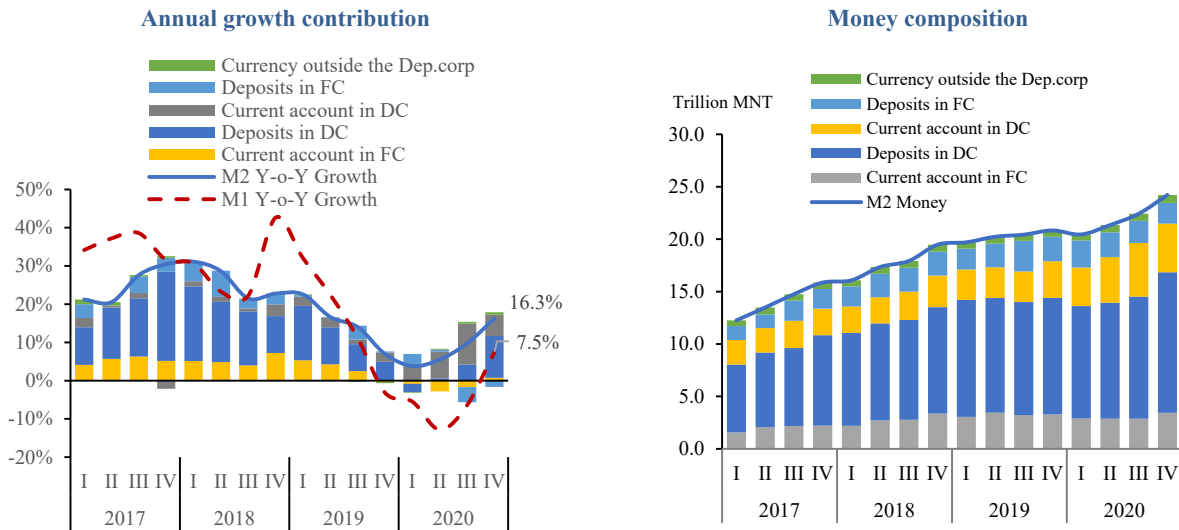
Source: Ministry of Finance, Bank of Mongolia

⁵ M2 money consists of M1 money and other deposits.

⁶ Other deposits are comprised of deposits in domestic and foreign currencies and current accounts in foreign currency.

⁷ M1 contains current domestic accounts and currency outside of depository corporations.

Figure 1.15: Money supply, by contribution and composition (Liabilities):

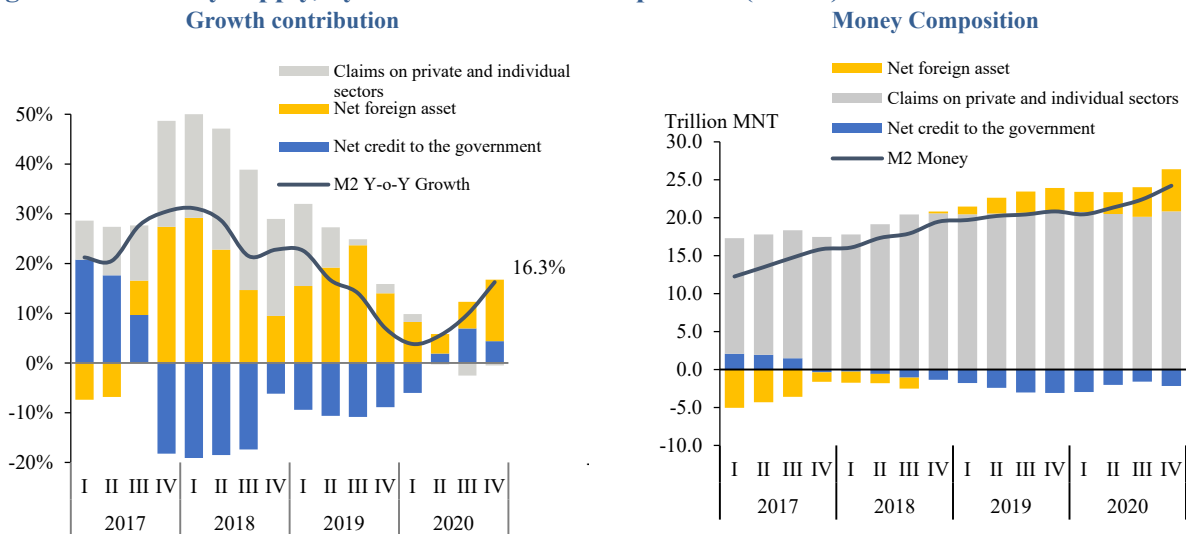


Source: The Central Bank of Mongolia

Source: The Central Bank of Mongolia

If we break down the money supply growth from the assets side, the growth of net foreign assets was 12.4%, making it the largest contributor to the growth of M2 in 2020. The decrease of loan issuance of depository corporations⁸ has caused the growth of claims on the private sector and individuals have declined. Net lending to the government has contributed a 4.4% increase in M2 growth, as a result of repayments of government bonds and a decrease in social security deposits at the banks (Figure 1.16).

Figure 1.16: Money supply, by contribution and composition (Assets):



Source: The Central Bank of Mongolia

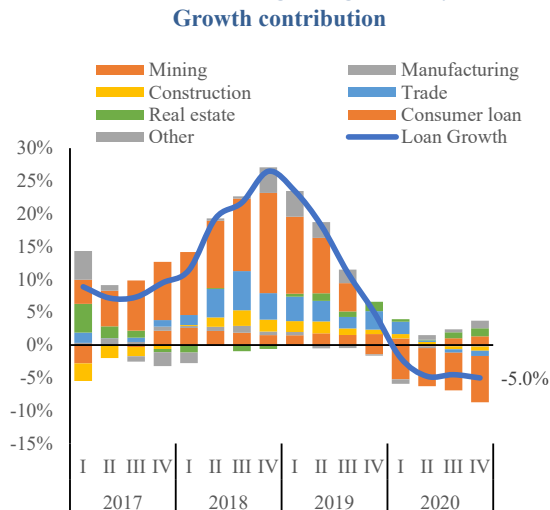
Source: The Central Bank of Mongolia

Annual credit growth has slowed since the beginning of 2020, declining by 5%⁹ year-over-year, and reaching 10% compared to the previous year. During 2020, consumer loans have continued to decrease, negatively affecting total loan growth by 7.1%. On the other hand, loans issued to mining and real estate sectors have positively contributed 2.5% to credit growth.

⁸ Depository corporations include banks, and credit and savings unions.

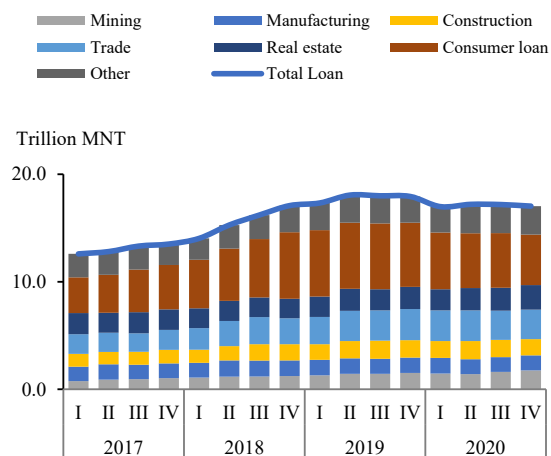
⁹ One-time forgiveness of pension-backed debts has a significant effect on credit growth. Excluding forgiveness, the actual pension credit declined by 1.2%.

Figure 1.17: Banks outstanding loan growth, by economic sectors



Source: The Central Bank of Mongolia

Loan Compositions



Source: The Central Bank of Mongolia

Regarding the structure of total loans, the share of consumer loans decreased by 5.7%, accounting for 27.6 % of total loans. Specifically, consumer loans decreased by 21.2% or MNT 1,264.410 billion in the reporting year. The shares of mining, construction, and real estate sectors account for 56.9% of the total outstanding loans (Figure 1.17).

Financial sector

The financial system of Mongolia is dominated by 12 commercial banks. The non-bank financial sector, consisting of 532 non-bank financial institutions, 249 savings and credit cooperatives, 15 insurance companies, 54 insurance intermediary companies, and 26 insurance loss-adjuster companies, accounts only for 6.7% of the total assets of the sector.

Figure 1.18 GDP share of financial and insurance activities

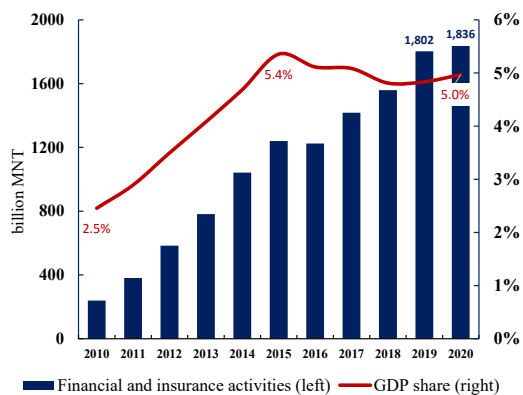
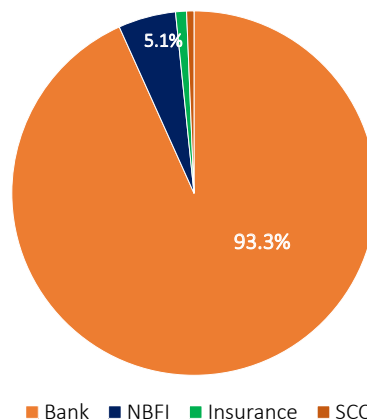


Figure 1.19 Total assets of Financial sector, by share of institutions (as of Q4 of 2020)



Source: BOM, NSO, FRC

¹⁰ In February 2020, MNT 676.3 billion in pension-backed loans were paid off per the law of “One-time forgiveness of pension backed debts” enacted by the Government in January of 2020.

Total assets of the non-bank financial institutions (NBFI) increased by 15.4% year-on-year and reached to MNT 2.0 trillion by the end of 2020. The loan portfolio increased by 7.0% in the amount of MNT 86.8 billion, explaining 32.4% of the total assets increase. 84.8% of the total outstanding loans were performing, 4.9% classified as past-due and 10.3% as non-performing loans. Compared to previous year's indicators, the share of the non-performing loans increased by 2.1 percentage points, 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 15.0% to MNT 256.0 billion; outstanding loans increased by 7.0% to MNT 167.6 billion. By the end of 2020, 4.4% of the SCC loans were classified as non-performing.

A total of 17 insurance companies, including 15 non-life, 1 life, and 1 reinsurance, conducted operations in 2020. Their total assets increased by 4.4% year-on-year, reaching MNT 382.1 billion by the end of 2020. Despite this growth, the deepening of the insurance market (insurance premiums to GDP) remains low compared to international levels. By the end of 2020, the insurance premiums to GDP ratio was 0.57%, showing 0.01 percentage point increase from the previous year. The total premium income of the insurance sector reached MNT 205.1 billion, most of which were from non-life insurance. From the total premiums, 29.0% or MNT 59.8 billion were spent for insurance claims. At the end of 2020, the profitability indicators, return on assets and return on equity decreased by 0.7% and 1.2%, respectively.

Securities worth of total MNT 65.3 billion were traded in 2020, of which 99.1% of them were securities traded on the primary and secondary markets, and the remaining 0.9% were sovereign bonds traded on the secondary market. Mongolia's total capitalization of the stock market increased by 12.5% or MNT 336.3 billion year-on-year to MNT 3.0 trillion.

Table 1.9 Non-bank financial sector as of Q4 2020, in billions of MNT

Indicators	NBFI	SCC	Insurance
Assets	2006.9	256.0	382.1
Liabilities	556.2	206.5	200.7
Equity	1450.7	49.5	109.2
Debt balances	1327.0	167.6	-
Non-performing loans	136.4	7.4	-
Profit for the reporting year	154.6	9.2	21.0
Insurance premium incomes	-	-	205.1
Payments for insurance claims	-	-	59.8

Figure 1.20 Market capitalization



Source: FRC, NSO

1.4 GENERAL GOVERNMENT BUDGET

Government budget

According to preliminary figures, the total budget structural revenue and grants reached MNT 9,422 billion, while total budget expenditure and net lending reached MNT 13,961 billion in 2020. The budget deficit amounted to MNT 4,539 billion, or 12.3 percent of the nominal GDP.

Budget revenue

The total structural revenue decreased by 14 percent year-on-year in 2020 with its performance at 93.7 percent of the budget amendment. 90.2 percent of the total structural revenue is made up of tax revenue, whereas the remaining 9.8 percent of the total structural revenue is formed by non-tax revenue. The composition of General Government revenue is shown in Table 1.10.

Table 1.10 Budget revenue

<i>billions of MNT</i>	2019	2020	2020/2019	
	i.	ii.	ii.-i.	ii./i. (%)
Total revenue	12040	10402	-1638	-14
Future heritage fund	1040	914	-126	-12
Stabilization fund	95	66	-28	-30
Structural revenue	10906	9422	-1484	-14
Tax revenue	9813	8502	-1311	-13
Taxes related to imports	3042	2806	-236	-8
VAT on import's goods and services	1633	1504	-130	-8
Customs duty	790	741	-49	-6
Excise tax revenue	619	562	-57	-9
Income tax revenue	2556	2220	-335	-13
Social security contributions	2031	1588	-442	-22
Domestic goods and services tax	1333	1268	-65	-5
Refund of Sales tax	-235	-352	-117	50
Other tax revenue	1087	970	-117	-11
Non-tax revenue	1092	920	-172	-16

Source: Ministry of Finance

For most of 2020, Mongolia was under various levels of curfews due to the pandemic. Following the weakening of economic activity, structural revenue had contracted by MNT 1.5 trillion compared to the previous year. The changes in revenue components are as follows:

- Social security contributions – decreased by MNT 442 billion;
- Income tax revenue – decreased by MNT 335 billion, of which corporate income tax fell by MNT 262 billion;
- Import-related tax revenue – decreased MNT 236 billion – VAT on imported goods by MNT 130 billion, an excise tax on passenger cars by MNT 60 billion, customs duty on imported goods by MNT 49 billion;
- Non-tax revenue – decreased by MNT 172 billion – rental income and oil revenue by MNT 226 billion and MNT 53 billion, respectively. Contrary to that, revenue from aid increased by MNT 51 billion;
- Other taxes – decreased by MNT 117 billion;
- Domestic goods and services taxes – decreased by MNT 65 billion, of which, an excise tax on domestic alcohol and tobacco fell by MNT 30 billion.

Budget expenditure and net lending

According to preliminary figures, the total budget expenditure and net lending reached MNT 14 trillion and was 95.8 percent of the amount stated in the Budget amendment 2020. Of the MNT 600 billion shortfalls from the amendment, MNT 400 billion was related to capital expenditure.

As a result of the set measures taken by the government amid the pandemic, the total budget expenditure expanded by MNT 2.3 trillion or 19.7 percent from the previous year. The changes in expenditure components are as follows:

- Subsidies and transfers – expanded by MNT 1,670 billion;
- Expenditure on goods and services – expanded by MNT 875 billion, of which MNT 391 billion is due to increased wage costs;
- Capital expenditure – expanded by MNT 35 billion;
- Net lending – decreased by MNT 379 billion.

Table 1.11. Budget expenditure

<i>billions of MNT</i>	2019	2020	2020/2019	
	i.	ii.	ii.-i.	ii./i. (%)
Total expenditure and net lending	11662	13961	2299	20
Primary expenditure	10801	13001	2201	20
Current expenditure /excluding interest payment/	7368	9912	2545	35
Capital expenditure	3017	3052	35	1
Net lending	416	38	-379	-91
Interest payment	861	959	98	11
Structural balance	-756	-4539	-3783	
% of GDP	-2.0%	-12.3%		
Primary balance	105	-3580	-3685	
% of GDP	0.3%	-9.7%		

Source: Ministry of Finance

Sources for financing budget deficit and amortization

A total of MNT 7.4 trillion was required to cover the budget deficit in 2020, including the refinancing of “Chinggis” and “Mazaalai” bonds and other payments. To raise the necessary funding sources, MNT 2.1 trillion was drawn from Government current account and deposits held at the Central bank and commercial banks, MNT 1.7 trillion was issued through new “Nomad” bond, MNT 3.4 trillion was financed by foreign loans, and the remaining MNT 164 billion was financed by other sources.

Table 1.12 Financing gap and financing sources of budget deficit

<i>billions of MNT</i>	2019	2020	2020/2019
	i.	ii.	ii.-i.
Financing sources of budget deficit	756	4539	3783
Current account and deposits outstanding of the government held at the Central bank	-1103	2143	3246
Government bonds	-165	-249	-84
Newly issued bonds	0	1713	1713
Principal payments	-165	-1962	-1797
Government loans	1185	2481	1296
New loans	1624	3359	1735
Principal payments	-438	-877	-439
Transfers of Future heritage fund	516	0	-516
Accumulated stock of Stabilization fund	322	139	-183
Privatization of property	1	26	25

Source: Ministry of Finance

Report on Government measures implemented amidst COVID-19

In the first three quarters of 2020, the government of Mongolia spent MNT 850 billion, mostly in the forms of transfers, and implemented the following set of measures in stages to protect citizens' income, jobs and support business activities and enterprises. These include temporary income tax cuts, exemptions, and social security relief.

- MNT 198.9 billion was exempted from income tax for 989.4 thousand people working in the private sector between April and October 2020;
- MNT 566.8 billion of social security contributions were fully covered by the government between April and October 2020, and MNT 148.7 billion were partially covered between October and December 2020;
- MNT 78.9 billion were exempted from income tax for 104.4 thousand businesses with an annual income of less than MNT 1.5 billion between April and December 2020;
- MNT 200,000 was provided for each job preserved for a total of 7,284 businesses whose income have been reduced by more than 50 percent and whose jobs have been kept between April and July 2020;
- Rental costs of MNT 18.9 billion for 3,368 tenants were saved since February 2020, as a result of tax cuts for businesses that reduced their rents;
- Tax arrears and penalties of MNT 876 billion for 356.2 thousand individuals and businesses, social security fines of MNT 14.4 billion for 6,100 businesses were exempted;
- To keep the food supply stable, MNT 24.3 billion of customs and value-added tax on some imported goods were exempted, including 15 thousand tons of elite wheat seeds, 160 thousand tons of wheat, all kinds of rice, sugar, and vegetable oil..

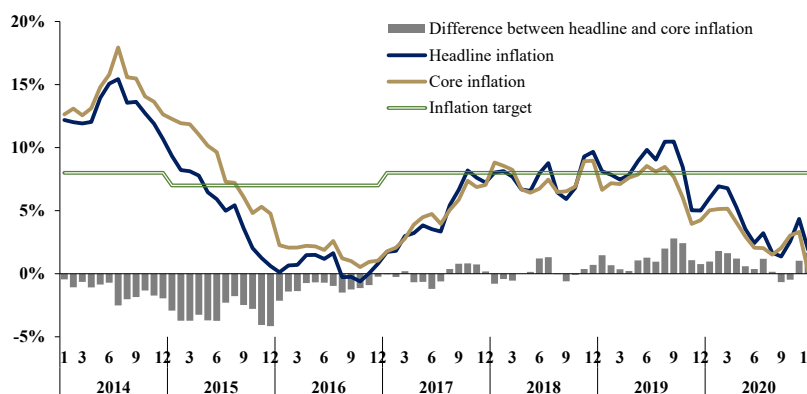
Source: Ministry of Finance

2.1 MONETARY POLICY OBJECTIVE, ACTIONS AND RESULTS

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

Inflation, measured by the consumer price index, reached 2.3 percent nationwide and 1.9 percent in Ulaanbaatar at the end of 2020. Inflation remained below the central bank’s target in 2020 as the supply and demand-driven inflation pressures were fairly muted. The difference between headline and core inflation, which excludes the items with significant price fluctuations, narrowed from February and stayed close in second and third quarters of 2020. However, the Government of Mongolia’s decision to reduce the price of processed fuels which came into effect in December 2020 resulted in core inflation falling to 0.2 percent by end of 2020.

Figure 2.1 Headline and core inflation



In 2020, the Bank of Mongolia took necessary policy measures to support economic and financial stability as the COVID-19 pandemic caused a massive economic shock, and the domestic economic activity shrank markedly. The Monetary Policy Committee met seven times in 2020 through 4 regular and 3 irregular meetings, taking monetary and macroprudential policy actions. Under monetary policy actions, the policy rate was reduced by 5 percentage points and reached a historically low level of 6 percent after 4 decisions, and the reserve requirement was lowered to 6 percent. Under macroprudential policy actions, the Bank of Mongolia has taken measures to restructure the loans and extend the maturity limit on consumer loans for lenders experiencing difficulty in their loan repayments. In addition, a long-term repo financing instrument was introduced to prevent a credit crunch in the banking sector.

In explaining the above measures in detail, inflation reached 6.4 percent nationwide and 6.9 percent in Ulaanbaatar city as of February 2020. The COVID-19 virus spread at an accelerating rate in China and external demand and commodity prices fell modestly. The domestic economic condition worsened due to weak external demand and border restriction measures. Considering this, the Monetary Policy Committee decided to (i) cut the policy rate by 1 percentage point to 10 percent, (ii) lower the MNT reserve requirement of banks by 2 percentage points aiming to decrease banks’ funding costs in domestic currency and to support financial intermediation and (iii) narrow the policy rate corridor be to +/-1 percentage points in order to reduce the rate of repo financing and increase banks’ liquidity.

With the increasing spread of coronavirus around the world, external and domestic economic conditions changed in a short period, and the outlook remained highly uncertain. Considering the high level of uncertainty and potential risks in the banking sector, the Monetary Policy Committee held an unscheduled meeting in April 2020. The Committee decided to lower the policy rate by 1 percentage point and to extend the maturity date of consumer loans up to 12 months for lenders experiencing difficulty in their loan repayments. The decision was aimed at supporting household income by reducing the debt burden, while also seeking to alleviate sudden economic slowdowns and to maintain economic and financial sector stability.

Inflation reached 3.3 percent nationwide and 3.5 percent in Ulaanbaatar city in May 2020, driven by a drop in domestic fuel prices in line with the global oil price decline. Meanwhile, inflation was expected to remain below the target in 2020, due to subdued demand-driven inflationary pressure stemming from economic contraction and dampened volatility of supply-related prices. However, the Monetary Policy Committee decided to keep the policy rate unchanged at its June meeting, considering the high uncertainty surrounding the continued spread of COVID-19 and the balance of payment deficit widened in the first 5 months of 2020, which was limiting monetary policy space. Owing to the persistently rising trajectory of deposit dollarization despite declining credit dollarization in the banking sector, in order to reduce dollarization of banks' liabilities, maintain the yield of the domestic currency and safeguard the stability of the financial system, it was decided that remuneration on banks' domestic currency reserve requirements would be deducted in proportion to the share of high-interest rate foreign currency deposits and interest-bearing current accounts in banks' total deposits.

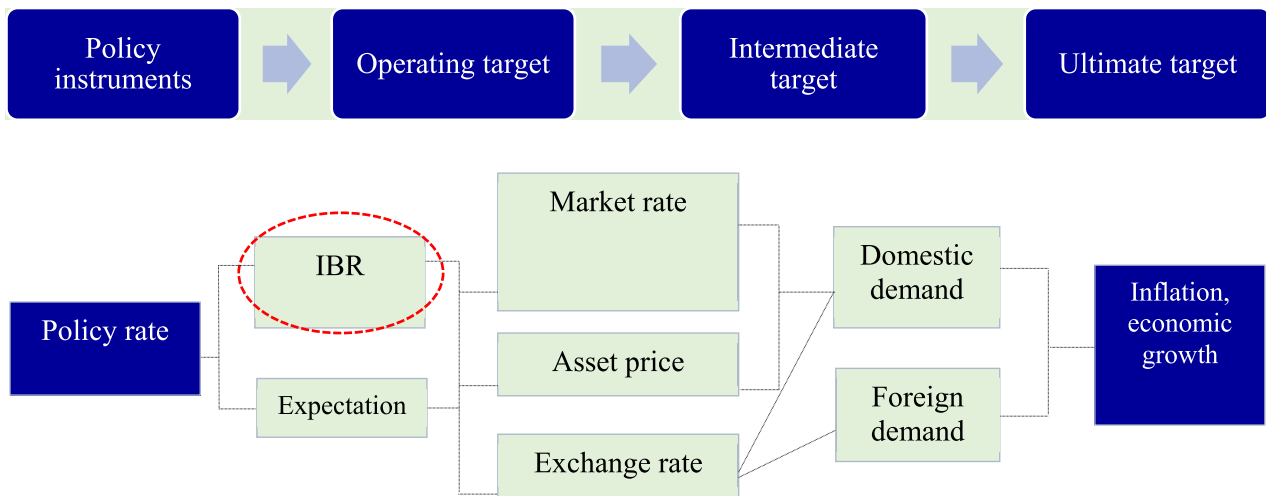
As a continuation of the decision made in April, the Monetary Policy Committee decided to prolong the implementation of restructuring and extending the maturity on consumer loans until the 31st of December 2020 for lenders experiencing difficulties in their loan repayments at its unscheduled meeting in August 2020. This policy measure was directed at alleviating the negative impact of the COVID-19 pandemic on the economy by easing the debt burden of borrowers and supporting household consumption in the wake of uncertain situations associated with the pandemic.

Inflation fell to 2.1 percent nationwide and 1.7 percent in Ulaanbaatar city as of August 2020. As a result of the COVID-19 pandemic, the economic activities continued to shrink and demand-pull inflationary pressure fairly lessened. The supply-side pressures remained low due to weaker fuel prices and weaker prices of meat and vegetables in line with its seasonal pattern, thus inflation was expected to remain under the target level in the coming years. Therefore, the Monetary Policy Committee decided to lower the policy rate by 1 percentage point to 8 percent. In addition, the Committee decided to introduce a long-term repo financing instrument to support the liquidity of banks, households, and businesses and prevent a credit crunch in the banking sector. This decision aimed to support the domestic economic growth through increasing credit supply and thus maintaining the stability of the banking sector.

The initial domestic spread of the COVID-19 virus was reported in November 2020, and the government decided to shift to public emergency readiness regime, which made economic and business activities shrink markedly. Considering to minimize the adverse effects in the economy and the banking and financial sectors, and to lighten the financial burdens of individuals, businesses and financial institutions during the COVID-19 pandemic, the Monetary Policy Committee held an unscheduled meeting on November 23, 2020, and has taken a set of policy measures. The measures included i) lower the policy rate by 2 percentage points to 6 percent, ii) reduce the MNT reserve requirement of banks by 2.5 percentage points to 6 percent, iii) continue to implement restructuring and extension of the maturity date of consumer loans with repayment difficulties until July 1, 2021, and iv) introduce a long-term refinancing instrument aimed at supporting SMEs and non-mining exporters. Both low inflation owing to weaker economic activity and stable exchange rate increased monetary policy room to stimulate the economic activities during the economic downturn.

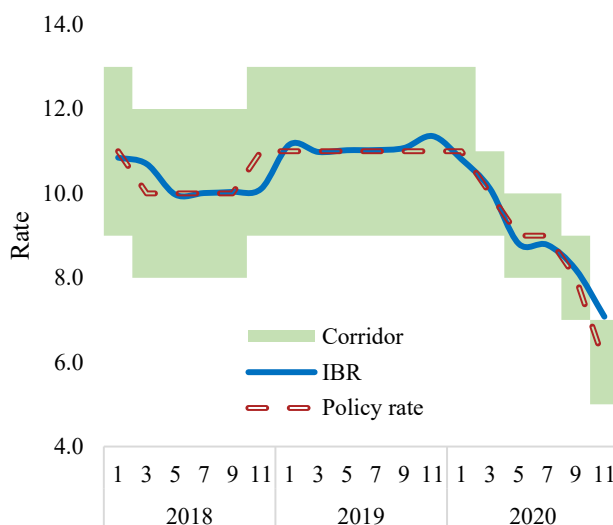
At its scheduled meeting held in December 2020, the Monetary Policy Committee decided to keep the policy rate unchanged and issue up to MNT 250.0 billion under the long-term repo financing to support SMEs and non-mining exporters in the first quarter of 2021. This set of decisions was directed at keeping a policy space in the wake of a high level of uncertainty related to the pandemic and risks inherent in the domestic and external environments while providing the long-term refinancing helps to prevent credit crunch in the banking sector in order to reduce the economic contraction then support the economic growth.

Figure 2.2 The monetary policy transmission mechanism



To decrease structural liquidity surplus, develop the interbank market, and enhance the monetary policy transmission mechanism, the Bank of Mongolia has been organizing 28-day and 196-day Central bank bill / CBB/ auctions since April and November of 2018, respectively.

Figure 2.3 IBR



The policy rate has been gradually reduced to a record low of 6.0 percent to reduce the adverse impact of the COVID-19 pandemic on the economy. The Monetary Policy Committee also changed the interest rate corridor to be +1 and -1 percentage wider than the policy rate. As a result, the interbank interest rate decreased by 4.7 percentage points to 6.0 percent in 2020. The average absolute deviation of IBR decreased to 0.21 basis points, and thus, the central bank maintained the operating target close to the policy rate (Figure 2.3).

MNT rate against USD

At the end of 2020, the MNT's reference rate against the USD has reached 2849.89, depreciated by 4.2 percent (Figure 2.4). Due to interventions in the domestic foreign exchange market to mitigate the exchange rate fluctuations and short-term demand and supply gap, the average daily exchange rate volatility was 0.017

percent in the reporting period, which was at the same level as 2019. The highest daily depreciation and appreciation rates were 0.17 percent (4.75 MNT, decreased by 2.67 MNT compared to last year) and 0.07 percent (2.06 MNT, decreased by 3.93 MNT compared to last year), respectively. Moreover, the exchange rate fluctuation was within the range of ± 0.2 percent (Figure 2.5).

Figure 2.4 The volatility of BOM's reference rate of MNT/USD (by MNT)

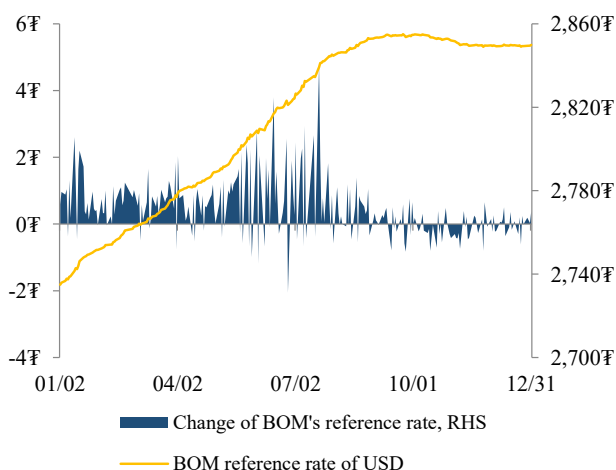
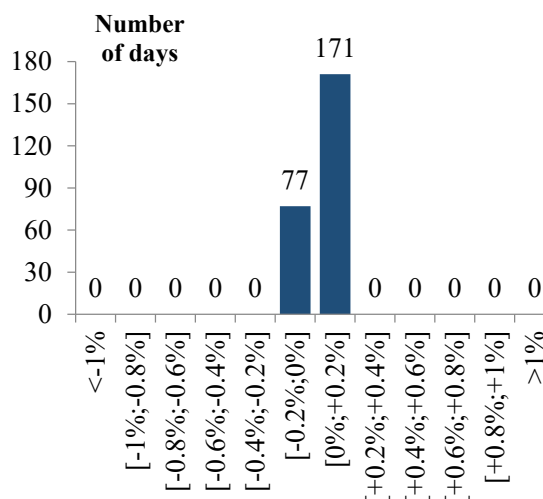


Figure 2.5 Histogram of daily changes of BOM's reference rate of MNT/USD



Source: The Bank of Mongolia

2.2 ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM REGIME

1. Measures are taken to remove Mongolia from the Financial Action Task Force's list of jurisdictions with strategic anti-money laundering and combating the financing of terrorism (AML/CFT) deficiencies

The Financial Action Task Force (FATF) has conducted a Mutual Evaluation of Mongolia in 2017 and concluded that Mongolia's AML/CFT regime has strategic deficiencies. Although Mongolia has made a high-level political commitment and taken appropriate measures to address the identified deficiencies, the FATF has included Mongolia in its list of jurisdictions with strategic AML/CFT deficiencies or often referred to as the "Grey list" on 18 October 2019. In this regard, as part of the exit process from the grey list, Mongolia in cooperation with the FATF has developed and approved an Action plan with a total of 6 action items under 4 Immediate Outcomes due in May 2021 (Table 2.1).

Table 2.1 Action plan of Mongolia

Nº	Action Items	Deadline	Responsible Organizations
Immediate Outcome 3			
1	Improving sectoral money laundering and terrorism financing (ML/TF) risk understanding by Designated non-financial businesses and profession (DNFBP) supervisors and applying a risk-based approach to supervision	May 2021	Financial Regulatory Commission & DNFBP supervisors (Ministry of Justice and Home Affairs: Mongolian Chamber of Notaries & Mongolian Bar Association; Ministry of Finance: Mongolian Institute of Certified Public Accountants)
2	Applying proportionate and dissuasive sanctions for breaches of AML/CFT obligations		
Immediate Outcome 7			
3	Demonstrating increased investigations and prosecutions of different types of money laundering activity in line with identified risks	May 2021	Law enforcement agencies, General Prosecutor's Office, Supreme Court, Judicial General Council, the General Executive Agency of Court Decision

Immediate Outcome 8			
4	Demonstrating further seizure and confiscation of falsely/ non-declared currency and applying effective, proportionate, and dissuasive sanctions	January 2021	Ministry of Finance: Customs General Administration
Immediate Outcome 11			
5	Demonstrating cooperation and coordination between authorities to prevent sanctions evasion	September 2020	National Counter-Terrorism Council, Ministry of Foreign Affairs, General Intelligence Agency, Bank of Mongolia, Financial Regulatory Commission, DNFBP supervisors (Ministry of Justice and Home Affairs: Mongolian Chamber of Notaries & Mongolian Bar Association; Ministry of Finance: Mongolian Institute of Certified Public Accountants)
6	Monitoring compliance by financial institutions and DNFBPs with their proliferation financing related targeted financial sanctions obligations, including the application of proportionate and dissuasive sanctions	May 2021	

Source: FIU, Bank of Mongolia

A working group chaired by the Minister of Finance was established by the Prime Minister's Resolution No.172 in 2019 to implement this action plan. In addition, a detailed internal action plan to remove Mongolia from the FATF's list of jurisdictions with strategic AML/CFT deficiencies was approved by Government Resolution No. 463 in 2019. Joint sub-working groups consisting of member institutions of the AML/CFT National Committee and the Cooperation Council along with private sector representatives and professional associations worked hard to implement the internal action plan. In this regard, the Financial Information Unit (FIU) has collaborated with each institution and provided the necessary support to address the action plan items. Moreover, the FIU focused its operations on enhancing the activities of the AML/CFT National Committee and the Cooperation Council, organizing the necessary discussions and meetings, ensuring effective international and domestic cooperation, and consolidating and reviewing the progress updates by the relevant institutions.

The Progress Report on updates for addressing the six items of the action plan developed with the FATF was compiled by the FIU and submitted to the Asia/Pacific Joint Group (APJG). This report was discussed at the FATF's International Co-operation Review Group (ICRG) meeting held in Beijing, China in January 2020 and three action items were evaluated as largely addressed. The next Progress Report on updates of the remaining three action items was prepared and compiled by the FIU and submitted to the APJG on April 13, 2020. This second report was successfully presented to the APJG at the virtual meeting held on May 11, 2020. As a result, FATF concluded that Mongolia largely addressed all the six action items under the 4 Immediate Outcomes.

For instance, concerning addressing the Immediate Outcome 3, Mongolia has demonstrated significant progress on improving sectoral money laundering and terrorism financing (ML/TF) risk understanding by DNFBP supervisors, applying a risk-based approach to supervision, and applying proportionate and dissuasive sanctions for breaches of the AML/CFT obligations. The FIU closely collaborated with the Financial Regulatory Commission and professional associations in establishing AML/CFT supervisory framework of DNFBPs, i.e., real estate agents, dealers in precious metals and stones, notaries, lawyers, accountants, and other financial management counselors. In addition, with the technical assistance of the international donor organizations, we have developed and updated the risk assessment questionnaires and tools for conducting off-site supervision of DNFBPs, assessing their risks, and inspecting those identified as high-risk. The FIU has developed sector-specific guidelines on implementing AML/CFT risk-based approaches for notaries, lawyers, accountants, and other financial management counselors. Moreover, guidance and recommendations for completing and submitting the reports to the FIU were developed for all DNFBPs.

To address the Immediate Outcome 7, law enforcement agencies have worked hard to increase investigations and prosecutions of different types of money laundering activity in line with the identified risks. In this regard, the FIU has developed statistical forms on ML/TF crimes and sent them to law enforcement agencies. In addition, under Immediate Outcome 8, the Customs General Administration has taken necessary measures on confiscation and seizure of falsely/ non-declared currency and applying effective, proportionate, and dissuasive sanctions. The FIU, in collaboration with the Customs General Administration and Financial Regulatory

Commission, has provided AML/CFT trainings for border control officers as part of its outreach activities.

To improve cooperation and coordination between the authorities to prevent sanctions evasion under Immediate Outcome 11, the FIU took necessary measures to support the operations of the working group on targeted financial sanctions established at the Cooperation Council as well as the effective application of “The regulation on implementation procedure of targeted financial sanctions on proliferation financing and terrorism financing”. Moreover, the FIU in cooperation with the National Counter-Terrorism Council and related supervisory authorities has conducted supervisions of DNFBPs to monitor their compliance with the UN Security Council’s targeted financial sanctions against the proliferation of weapons of mass destruction and the financing of terrorism. As part of its efforts to raise awareness of reporting entities for the proliferation of weapons of mass destruction and the financing of terrorism, the FIU was actively involved in the translation of conventions and standards of relevant international organizations.

Due to the challenges caused by the COVID-19 pandemic, the FATF considered delaying its on-site visit to Mongolia. Therefore, the FIU prepared official request letters to apply a flexible approach for conducting Mongolia’s on-site visit by sending assessors in person or organizing the on-site meetings virtually. Multiple requests were sent to the FATF, Asia-Pacific Group on Money Laundering (APG), and APJG through the Ministry of Finance, the Ministry of Foreign Affairs, and the Bank of Mongolia, and the FIU has organized several virtual meetings and discussions to convey these requests. The FATF agreed to organize the on-site visit in Mongolia on October 1-2, 2020.

The FIU developed an action plan approved by Decree No.151 by the Minister of Finance on August 14, 2020, to prepare for the on-site visit to Mongolia. The FIU ensured the effective implementation of this action plan and reported its progress updates. Additionally, the FIU developed and shared recommendations, including a list of potential questions and answers for the on-site visit regarding FATF Recommendations, Immediate Outcomes, and specific activities for each participating institution. Moreover, the FIU organized mock interviews and discussions with the Asian Development Bank consultant, and drafted and compiled the On-site Report of Mongolia and submitted it to the FATF on September 17, 2020.

The Deputy Prime Minister of Mongolia issued Resolution No.105 to establish a working group responsible for organizing and monitoring the on-site visit. The working group ensured the effective management of orders of arrival and departure flights of the FATF’s assessment team members as well as accommodation, other services, sterilization, and disinfection procedures. The FIU led this working group and took all the necessary actions for the successful organization of the on-site visit. The working group consisted of representatives from the State Emergency Commission, the National Emergency Management Agency, the Ministry of Health, the General Agency for Specialized Inspection, the Bank of Mongolia, the Ministry of Justice and Home Affairs, the Ministry of Finance, and disinfection service agencies.

The FATF’s on-site visit was organized in Mongolia on October 1-2, 2020, under the supervision of the State Emergency Commission per the requirements set for the prevention of the COVID-19 pandemic. A total of 140 people, including representatives from 22 government institutions, 19 private sector entities, 4 professional associations, have participated in the on-site meetings. Representing the APJG, four assessors from the United States, the Russian Federation, the United Kingdom, and the People's Republic of China visited Mongolia in person to conduct the on-site assessment and over 10 international experts have participated in the on-site meetings virtually. At the FATF Plenary, the successful organization of Mongolia’s on-site visit was highlighted as an international best practice during the challenging times of the COVID-19 pandemic.

The FATF discussed the results of the on-site assessment among its member countries at the ICRG meeting held on October 13, 2020, and officially announced its decision to remove Mongolia from the FATF’s list of jurisdictions with strategic AML/CFT deficiencies on October 23, 2020. As a result, Mongolia got off the “Grey list” within 1 year, which is the shortest period compared to other jurisdictions.

Mongolia's removal from the "Grey list" is expected to have positive effects on reducing the costs of foreign transfers, payments, and financial services made by Mongolian citizens and businesses and facilitating faster foreign settlements concerning the ease of the enhanced due diligence measures by foreign banks and financial institutions. In addition, more opportunities may arise for expanding business relationships with foreign banks and financial institutions and attracting funds from foreign markets because of potential positive impacts on remittances, foreign trade, and credit ratings. Moreover, positive implications are expected on foreign direct investments, inflation and the exchange rate..

II. Measures taken to exclude Mongolia from the European Union's list of high-risk third countries with strategic AML/CFT deficiencies

After Mongolia was added to the FATF's "Grey list", the European Union (EU) added Mongolia to its list of high-risk third countries with strategic AML/CFT deficiencies, known as the EU's "blacklist". Therefore, to get Mongolia removed from the EU's list, the FIU has sent multiple requests to the European Union through the Ministry of Foreign Affairs and organized necessary virtual meetings.

As a result of our continuous efforts and Mongolia's removal from the FATF's increased monitoring, the European Commission amended its Directive No. 2015/849 on 18 January 2021 and excluded Mongolia from the EU's list of high-risk third countries with strategic AML/CFT deficiencies.

The removal from the EU's list of high-risk third countries is expected to have positive effects on establishing business relations with banks and financial institutions of EU member states, making faster correspondent transactions and increasing the opportunities for implementing EU-funded projects and programs.

III. Measures taken to improve technical compliance ratings of FATF 40 Recommendations

As part of the effective implementation of FATF 40 Recommendations, the FIU has submitted a Follow-up report to the APG on 1 February 2020, requesting re-ratings of 5 Recommendations and supplying information on maintaining the rating of 1 Recommendation. In this regard, the FIU provided relevant explanations between March to May 2020 when the review team needed any clarifications on Mongolia's 3rd Follow-up report. Mongolia's Follow-up report was circulated to the APG member jurisdictions for comments and review and accordingly, relevant clarifications were provided in response to the comments received.

At the APG Mutual Evaluation Committee meeting held virtually on July 22, 2020, the Follow-up Report of Mongolia with upgraded ratings of 3 Recommendations was endorsed out-of-session. The Report was adopted and published on August 2020 in which the rating of Recommendation 14 was upgraded by two levels to Compliant and the ratings of Recommendations 28 and 35 were upgraded by one level each to Largely Compliant.

Under Recommendation 14, the FIU supported the Financial Regulatory Commission to create an effective legal and regulatory system and to identify illegal money or value transfer service providers and impose proportionate and dissuasive sanctions for their breaches. For upgrading the rating of Recommendation 28, the risk-based supervisory approaches were introduced in all regulated sectors. In addition, the FIU developed relevant manuals, guidelines, recommendations and organized training and seminars to raise awareness of DNFBPs on AML/CFT preventive measures and build supervisory capacity, especially, of Self-Regulatory Bodies for lawyers, notaries, accountants, and other financial management counselors. As part of improving the rating of Recommendation 35, the fines for violations by reporting entities were increased and violations of the AML/CFT Law became subject to sanctions under the Criminal Code and the Law on Infringement.

Therefore, in terms of Mongolia's technical compliance with FATF 40 Recommendations, 37 Recommendations have been rated as Compliant or Largely Compliant and the remaining 3 Recommendations have been evaluated as Partially Compliant as shown in the below table:

Table 2.2 Mongolia's technical compliance ratings of FATF 40 Recommendations*/C-compliant, LC-largely compliant, PC-partially compliant, NC-non-compliant/*

R1	R2	R3	R4	R5	R6	R7	R8
PC	LC	LC	LC	LC	LC	LC	PC
R9	R10	R11	R12	R13	R14	R15	R16
LC	LC	C	LC	LC	C	PC	LC
R17	R18	R19	R20	R21	R22	R23	R24
LC	LC	LC	LC	C	LC	LC	LC
R25	R26	R27	R28	R29	R30	R31	R32
LC	LC	LC	LC	C	C	C	LC
R33	R34	R35	R36	R37	R38	R39	R40
LC	LC	LC	C	C	LC	LC	LC

Source: FIU, Bank of Mongolia

In order to upgrade the ratings of 3 Recommendations evaluated as Partially compliant and to maintain the improved ratings of other Recommendations, the Chairman of the AML/CFT National Committee and the Minister of Justice and Home Affairs approved “Action plan to address the AML/CFT technical compliance deficiencies in FATF 40 Recommendations” on May 25, 2020. Hence, the National Risk Assessment for Money Laundering and Terrorism Financing of Mongolia is being conducted in accordance with Recommendation 1. In addition, relevant amendments will be made to the “AML/CFT Preventive Measures Regulation” approved by Decree No. A-26 by the Governor of the Bank of Mongolia dated January 21, 2019. Under Recommendation 8, the FIU has been working with the Ministry of Justice and Home Affairs and the National Counter-Terrorism Council to establish an AML/CFT regulatory framework for the non-profit sector, to improve its legal environment and to raise awareness through outreach activities. To ensure the implementation of Recommendation 15, the FIU participated in a working group responsible for studying the needs and requirements of drafting laws related to virtual asset service providers, developing proposals to improve the legal environment in accordance with the international standards and recommendations, and drafting amendments to relevant laws. The working group was established by Decree No. A-23 of the Governor of the Bank of Mongolia on January 27, 2020, and has conducted research on international practices and legal environment and drafted the Law on Virtual Asset Service Provider with the relevant organizations.

Box 1. AML/CFT regulatory framework of the virtual asset sector

In recent years, new types of financial products and services based on advanced technologies have been launched to the market, bringing major changes in the global economy. For instance, the concept of virtual assets such as cryptocurrencies and bitcoin has been introduced and virtual assets are offering opportunities to make payments faster, cheaper, and easier than using a traditional financial system. Even though financial inclusion and service efficiency have been improved, there are potential risks that the unique technological and pseudo-anonymity features of virtual assets could provide opportunities for criminals to hide their illegally obtained income and assets and to further use the virtual assets to commit crimes, launder money and finance terrorism. Therefore, countries around the world and international organizations have begun to take this issue into account and develop legal, regulatory, and supervisory framework for the virtual assets.

The FATF issues 40 Recommendations which are recognized as international standards for the prevention of money laundering and financing of terrorism and proliferation of weapons of mass destruction. The FATF has made amendments to its Recommendation 15 on new technologies to set the criteria for virtual assets and virtual asset service providers in 2019. As defined by the FATF, virtual asset is a digital representation of value that can be digitally traded or transferred and can be used for payment or investment purposes. Bitcoin, the very first virtual asset, was created more than 10 years ago, and this sector is constantly evolving based on the blockchain technology. Thus, according to the FATF Standards, countries should assess ML/TF risks emerging from virtual assets, take appropriate preventive measures, and ensure that virtual asset service providers are registered or licensed, subject to AML/CFT risk-based supervisions and proportionate and dissuasive sanctions in case of any violations, implement customer due diligence measures and report any suspicious transactions.

With the rapid development of the virtual asset market based on technological advancements and introduction of new types of cryptocurrencies and coins in the market, it has been difficult to determine the future trend and development of this sector. Thus, considering their economic characteristics, countries around the world are adopting different approaches for creating legal environment for virtual assets in accordance with the FATF requirements. For example, emerging economies are fully supporting or prohibiting the use of virtual assets, while the most western countries as well as Japan and Singapore among countries in Asia continent have been more flexible in terms of supporting economic innovations. In Japan, Payment services act was amended in 2016 for regulating cryptocurrencies and Japanese Financial Services Agency has recognized the virtual currency as a legal tender for payment. As for our neighbouring countries, the Russian Federation passed the Law on Digital Financial Assets and Digital Currencies in 2020 and started to implement it in 2021, while the People's Republic of China has banned the cryptocurrency operations. In addition, virtual asset service providers in the Republic of Korea, Japan, Australia, the United Kingdom, and Switzerland shall operate with the permission of their respective Financial Regulatory Commissions.

Currently, few numbers of virtual asset service providers are operating in Mongolia. In recent years, Mongolian citizens are participating in cryptocurrency trades at the foreign online platforms using their international bank cards and there are a number of active groups on social media that give advice on how to trade cryptocurrencies. In addition, the fact that crimes related to virtual assets have been reported to law enforcement agencies in the past indicates the need for establishing a regulatory framework in this sector. Thus, in order to implement the FATF Standards, upgrade the partially compliant rating of Recommendation 15, create the legal environment for virtual assets and establish a regulatory framework in Mongolia, the FIU, Bank of Mongolia and Financial Regulatory Commission in cooperation with other relevant authorities have drafted the Law on Virtual Asset Service Provider. The draft law consists of 14 articles, defines virtual assets and virtual asset services in accordance with the FATF requirements and aims to set the principles and requirements for the operations of virtual asset service providers and their registration procedures, monitoring, relevant rights and responsibilities, cooperation and accountabilities. Virtual asset service providers would be able to start their operations after getting registered by the Bank of Mongolia or the Financial Regulatory Commission in accordance with their set requirements.

Source: FIU, Bank of Mongolia

2.3. POLICY IMPLEMENTATION TO MAINTAIN BANKING SECTOR STABILITY

Banking sector

As of this reporting year, there were 12 banks in the sector, employing a total of 15,942 workers across 1,402 branches. Deposit accounts and number of debtors reached a total of 3.0 and 2.9 million, respectively.

Credit growth is decelerating. At the end of the reporting year, the banking sector’s outstanding loan balance reached MNT 17.1 trillion, comprising 47.1 percent of total assets. The total outstanding loan balance decreased by 4.6 percent or MNT 820.3 billion, of which 89.0 percent or MNT 730.3 billion comprised of consumer loans. This decrease was due to the Government’s decision to zero out pension loans. The remaining 11.0 percent resulted from credit shrinkage and loan restructuring activities related to the pandemic.

Figure 2.6. Loans outstanding (in trln. MNT) and loan growth (yoy)

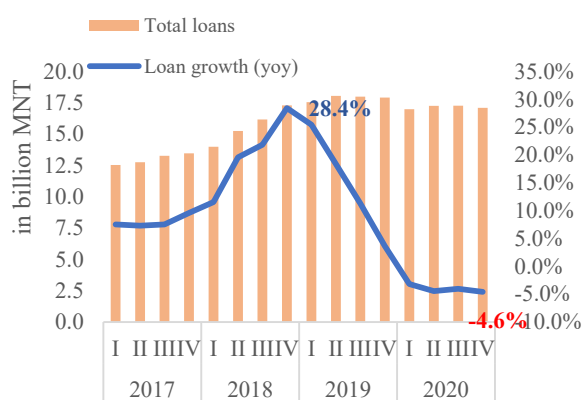
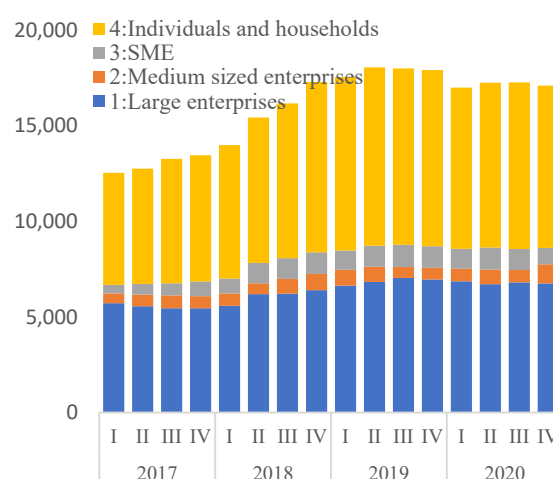


Figure 2.7. Loans outstanding, by borrower type (in trln. MNT)



Source: The Bank of Mongolia

During the past year, loans across all sectors but mining, real estate, and mortgage loans experienced a decline.

Risks due to rising non-performing loans are still accumulating. As of the end of the reporting year, non-performing and special mention loans stand at 10.7 percent and 9.6 percent, respectively. Non-performing loans rose by 25.6 percent or MNT 371.2 billion compared to last year, mainly due to individual non-performing consumer loans’ increase of 61.2 percent or MNT 149.6 billion.

Figure 2.8. NPL by borrower type

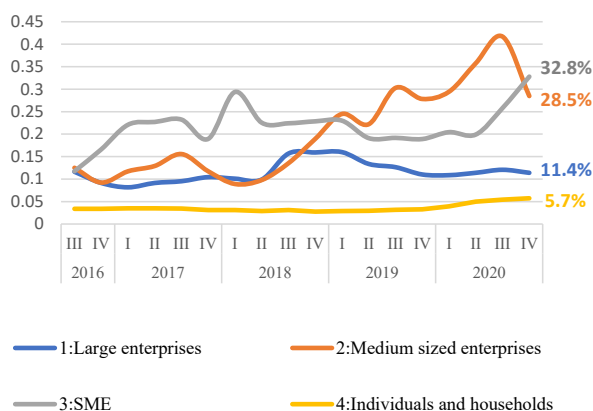
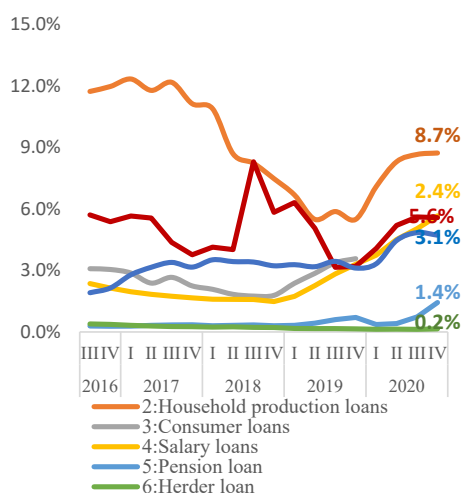


Figure 2.9. NPL by loan products



Mining, manufacturing, and construction sectors had above than average non-performing loans of 22.5, 22.0, and 16.6 percent, respectively, while the trade sector had non-performing loans of 5.0 percent, the lowest among all sectors.

Figure 2.10. Liabilities

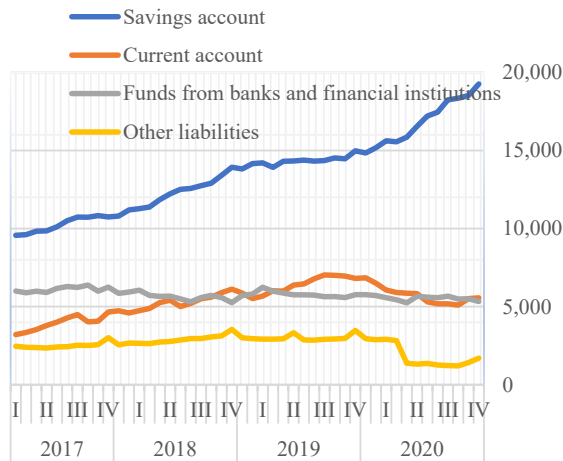
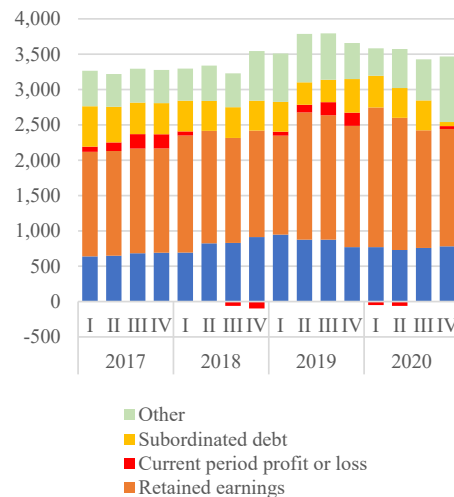


Figure 2.11. Banking system capital structure



Banking sector liabilities reached MNT 32.8 trillion by the end of 2020, representing a 2.6 percent increase from last year. The growth in current and deposit accounts accounted for almost 90 percent of the total, whereas the growth of the liabilities from banks and non-bank financial institutions decelerated.

An increase in the size of foreign currency-denominated deposits due to appreciation of foreign currencies and movement away from current accounts to deposits accounts may have in conjunction spurred the year-over-year growth of 28.6 percent in total deposits.

The share of income-generating assets is decreasing. Due to a decline in credit growth and total investments, the share of profitable assets in banks' balances has decreased, thus posing risks to banks' interest income and profitability.

Figure 2.12. Profit and loss (in bln. MNT)

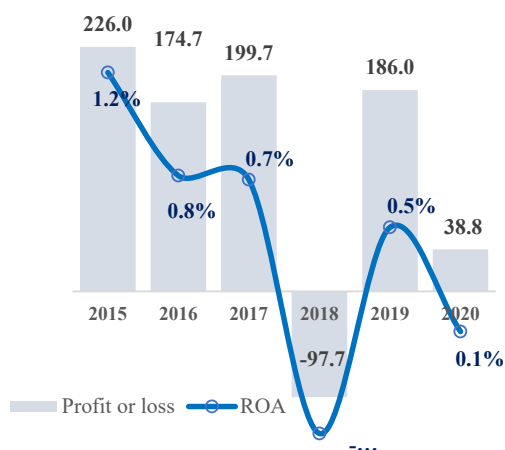
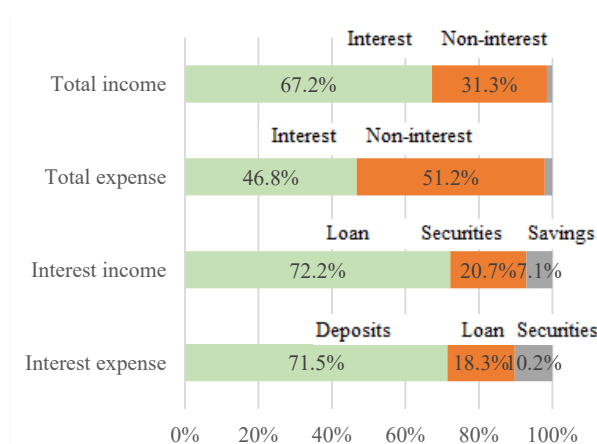


Figure 2.13. Revenue and cost breakdown



In 2019, the banking sector profits stood at MNT 186.0 billion, which in 2020 was at MNT 38.8 billion – representing a 0.1 percent return on assets.

In 2020, out of the total banking sector revenue of MNT 5.0 trillion, 67.2 percent was from interest income and 31.3 percent was from non-interest income. Loan interest payments and securities interest income comprised 72.2 and 20.7 percent of total interest income, respectively, while the remaining 7.1 percent was from interest accumulated on current and deposits accounts. Total expenses stood at MNT 5.0 trillion by fiscal year-end, of which 46.8 and 51.2 percent were interest expenses and non-interest expenses, respectively. From the total interest expenses, 71.5 percent can be accounted for by the interest paid to current and deposit accounts holders, while 18.3 and 10.2 percent for interest paid to securities holders and other interest expenses, respectively.

The banking sector's risk-bearing capacity has deteriorated due to poor asset quality and profitability. Tier 1 capital adequacy was 14.3 percent, total capital adequacy was 15.4 percent, and liquidity ratios were 46.4 percent. Although bank capital adequacy ratios are overall adequate, the total risk-bearing is deteriorating due to poor asset quality and profitability of the banking sector.

Policies implemented by the Bank of Mongolia

In view of the Lending Rate Reduction Strategy, by the decree of the Governor of the Bank of Mongolia, transaction fees, banking operations authorization fees and bank branch establishment fees charged by the Bank of Mongolia were set at 0.

Moreover, under the Bank of Mongolia and the Asian Development Bank's cooperation initiative, Memorandums of Understanding were established with the Asian Development Bank's East Asia Department, the Financial Management Department, and the Economic Research & Regional Cooperation Department in the following three areas to implement technical assistance programs:

- Improve the legal environment surrounding bank ownership concentration and its reduction, banks' prudent corporate governance and its strengthening;
- Continue the implementation of international best practices in bank supervision and regulation;
- Align and diversify bank licenses and regulatory requirements with bank activities, business models, and other relevant factors.

Furthermore, the banking reform program aims to decrease bank ownership concentration, and improve bank transparency and public monitoring, which was approved by the decree of the Governor of the Bank of Mongolia. Within the purview of this program's goal to decrease bank ownership concentration, draft laws on amendments to the Banking Law and its implementation were drafted and submitted for discussion for the Parliament's Fall 2020 Assembly. In relation, amendments to the Law on Central bank encompassing improved legal protection of bank supervisors' were also submitted.

Measures consistent with the Banking Law and international best practices were taken to decrease the COVID-19 pandemic effects and strains on the banking and financial sector. For example, temporary amendments were made to the following Bank of Mongolia regulations on banking activities, effective from March 19th of 2020 until June 30th of 2021:

1. Regulation on asset classification, provisioning, and its disbursement:

- a. Mortgage, salary, pension, and other consumer loan classification requirements based on quantitative indicators were relaxed. Loans that are past due 90 days can be classified as Performing (whereas it was 15 days originally), loans that are past due 91-120 days can be classified as Special mention, and those that are past due 121 days and more can be classified as Non-Performing;
- b. Business and consumer loans restructured since January 31st of 2020 do not have to be classified as restructured;
- c. Consumer loan classifications based on qualitative indicators as of January 31st of 2020 to be maintained as is;

- d. Loan classifications based on quantitative indicators should deduct days in lockdown;
- e. Repossessed asset classification requirements based on quantitative indicators were relaxed.

2. Regulation on setting and monitoring prudential ratios to banking operations:

- a. Buffer requirement breach triggers were suspended;
- b. The liquidity ratio requirement was reduced from 25 percent to 20 percent.

These measures were designed to maintain the pre-pandemic loan classification of debtors facing temporary financial difficulties and solvency issues caused by the COVID-19 pandemic, and thus allowed the exclusion of credit downgrade records on their credit history.

In 2020, the Bank of Mongolia conducted inspections and took early interventions on both individual banks and banking conglomerates to ensure compliance of banking activities with relevant laws and regulations within the framework of protecting the interests of depositors and strengthening the reliability of the banking system, as follows:

On-site examination	Off-site examination	Early Intervention
Risk-based inspection	Regular supervision	Preventive measures
<ul style="list-style-type: none"> • Comprehensive on-site examinations on two banks; • Partial on-site examinations on two banks; • Supervision department-dispatched examinations on two banks; • Joint comprehensive examination on the Development Bank of Mongolia by The Bank of Mongolia and the Ministry of Finance. 	<ul style="list-style-type: none"> • Received and reviewed the reports submitted by banks and imported the reports into the consolidated system, subsequently delivered follow up reports; • Monthly and quarterly off-site surveillance report; • Fulfilled tasks and took necessary measures given by the Governor of the bank of Mongolia; • Evaluated the governance of the banks and delivered follow up reports; • Reviewed banks' plans to reduce non-performing assets and took appropriate measures; • Reviewed the IT audit report of the Bank's Internal audit department; 	<ul style="list-style-type: none"> • 22 acts and statements amounting to 2.3 billion MNT were issued to eliminate violations and deficiencies on 4 banks which violated the relevant banking laws and regulations; • 44 violation cases were opened during the examinations and fines of 421.0 million MNT were imposed • Addressed banks to rectify violations revealed during examinations; • Appointed a Controller in accordance with the Article 251 of the Central Bank Law; • Precautions were taken in accordance with Article 48 of the Banking Law;

Risk-Based On-Site Inspection: Following the guidelines approved by the Governor of the Bank of Mongolia, on-site inspections focused on verifying documents and materials of high-risk activities of banks on the spot. Risk-based on-site inspections could not be carried out as planned in 2020 due to the COVID-19 pandemic. Thus, the focus shifted to carrying out comprehensive off-site surveillance.

Regular Off-Site Inspection: The Bank of Mongolia uses a combination of on-site and off-site inspections to monitor banking operations. However, due to the global pandemic, quarantine, and infection control regimes, the traditional banking supervision process shifted to remote monitoring that concentrated on the bank's business plan, non-performing assets, and the impact of the pandemic on its operations. In addition, regular measures were taken to assess and prevent potential risks in order to ensure the reliability of the banking system.

In connection with the Amendment of the Banking Law in 2018, the “Regulation on the setting, observing, reporting and monitoring limits on banking operations” and the “Regulation on setting and monitoring prudential ratios for banking operations” were enacted as of January 1, 2020. It has enhanced the off-site inspection process by adding limitations on some banking activities, setting criteria for main stakeholders, and renewing the liquidity buffer.

In addition, regular off-site inspections were carried out per Article 10.4 of the “Law on COVID-19 prevention, fight, and mitigation of its socioeconomic impact”, and temporary changes in the “Regulation on asset

classification, provisioning and its disbursement” and certain clauses from the “Regulation on setting and monitoring prudential ratios for banking activities”

Early Intervention: During supervision activities of banks, the bank's liquidity, loan portfolio quality assessment, capital adequacy issues, operational policies and procedures, credit risk management system, risk tolerance, liquidity violations, and others were resolved in accordance with relevant laws and regulations. The results of the inspections were presented, the consolidated presentation was discussed at the meeting of the Supervision Committee, the relevant instructions were given to the bank by the decree of the Governor of the Bank of Mongolia, and its implementation was monitored.

The Bank of Mongolia, in cooperation with the International Monetary Fund, regularly monitors banks' plans to increase their capital and reduce their non-performing assets to support the stability of the banking sector and economic growth.

Anti-money Laundering and Combating the Financing of Terrorism supervisions

According to the Government's Monetary Policy Guidelines for 2020, the Bank of Mongolia's priority was to remove Mongolia from the FATF's list of strategically deficient countries in 2020.

Therefore, BSD actively participated in activities to address the shortcomings related to AML/CFT and Proliferation, increase effective implementation of FATF standards in cooperation with the Financial Intelligence Unit and its Cooperation Council members, and successfully participated in reporting the results and defending the reports.

The Financial Action Task Force (FATF) convened on October 23, 2020, to discuss removing Mongolia from the FATF's grey list of countries that have strategic deficiencies to combat money laundering and terrorist financing. Delegates from 130 countries unanimously agreed to remove Mongolia from the grey list in recognition of Mongolia's progress in combating money laundering and terrorist financing.

The methods of conducting supervision of the banks' AML/CFT and Proliferation financing activity were switched to a risk-based approach in line with FATF Standard and successfully conducted risk assessments in the banking sector and each bank.

In the reporting year, the Supervision Department of the Bank of Mongolia cooperated with other government agencies working to ML/TF within the framework of the Cooperation Council, drafting policy and regulation changes, conducting risk assessments, and conducting trainings in accordance with the recommendations of the FATF.

The Supervision Department conducted a risk assessment of the banking sector with the participation of representatives from all banks, the Mongolian Banking Association, the Financial Intelligence Unit, related government agencies, and independent researchers to identify vulnerabilities and threats of the banking sector in terms of the fighting against money laundering and terrorism financing.

On-site examinations and actions taken

The Bank of Mongolia's Supervision department conducted risk-based and thematic on-site examinations on AML/CFT activities of all commercial banks in 2020. The on-site examinations of banks revealed certain deficiencies in the areas of risk assessment techniques, customer due diligence process, identification of beneficial owners, and reporting obligation and 5 penalties were imposed.

In addition, a total number of 28 assignments were given to banks to correct their identified deficiencies and improve their operations. The implementation progress has been monitored.

Table 2.3 On-site examinations of AML/CFT activities conducted by AML/CFT Supervision Unit

Indicators	FY 2019
Risk-based on-site examination	4
Thematic on-site examination	15
Integrated on-site examination /joint with FRC/	-
Acts and statement issued by state inspectors based on their examinations	-
Number of fines and penalties imposed	5
Assignments directed at banks following the examinations	28

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

Additionally, on-site examination related to the United Nations sanction list was conducted regularly and based on the findings, the instructions were given to all commercial banks.

Seminars and training courses related to AML/CFT

There were 15 training courses and workshops on AML/CFT organized by the Bank of Mongolia, the National Counter Terrorism Council, the General Intelligence Agency of Mongolia, the Mongolian Banking Association, the FIU, and other institutions.

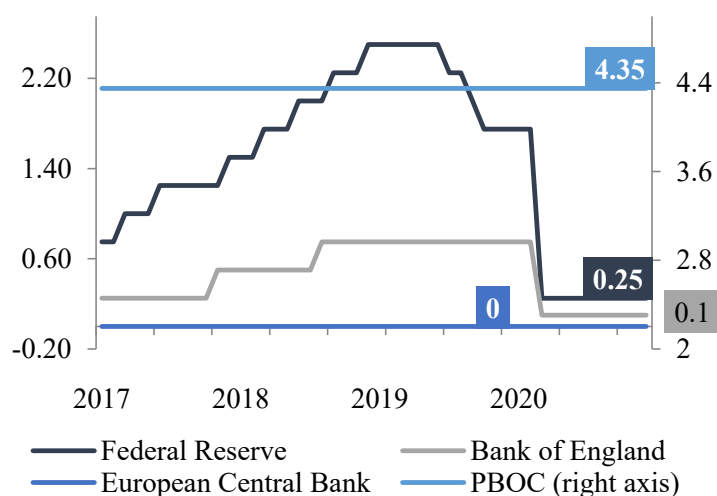
Table 2.4 Seminars and workshops on AML/CFT organized by BSD

Contents	Date	Organizer	Participants
1 Training on “National Risk Assessment”	2020.05	FIU, MBA-Compliance committee	28
2 Seminars on implementation of targeted financial sanctions	2020.05	National Counter Terrorism Council	32
3 Training on preparing banks for FATF on-site visit	2019/02/29	Cooperation Council, MBA-Compliance committee	24
4 Panel on Sectoral Risk Assessment	2019.03.20	Cooperation Council, MBA-Compliance committee	48

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

2.4 MANAGEMENT OF FOREIGN EXCHANGE RESERVE

Subject to Article 21 of the Law on the Central bank of Mongolia, the Bank of Mongolia implements a foreign exchange reserve management policy to ensure 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 reserve management aims to create a monitoring system consistent with international standards, which determines the rights, responsibilities, and supervision of the parties involved with its management.

Figure 2.14 Central Bank rates (%)

Source: The Bank of Mongolia

In 2020, the Bank of Mongolia carried out its foreign reserve management in line with the generally accepted asset management principles and within the scope of established risk limits. In terms of the general structure, the Bank of Mongolia determines its foreign currency asset and investment composition, optimal investment duration, and eligible financial instruments.

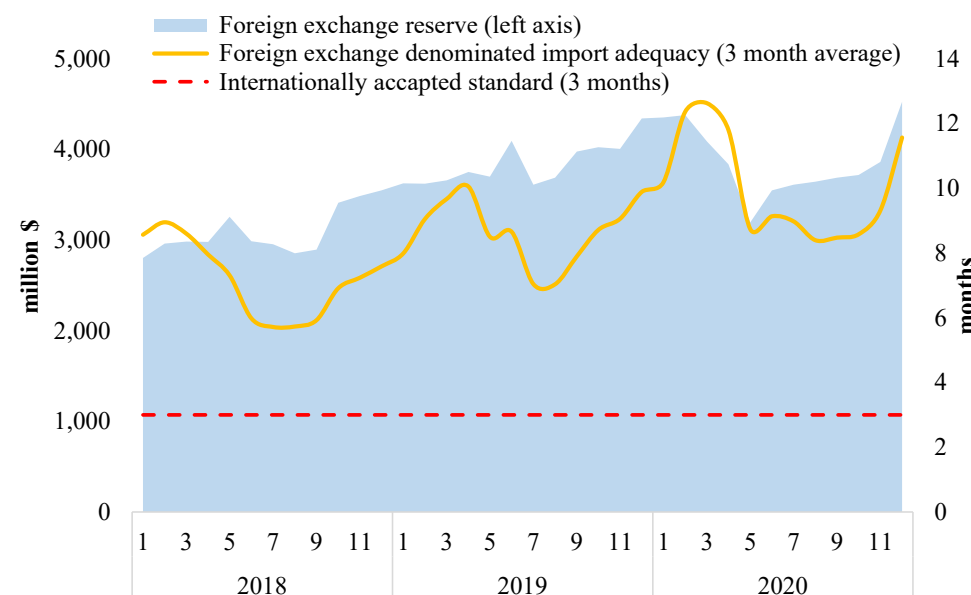
The COVID-19 pandemic has slowed global economic growth and destabilized the international investment environment. Central banks have maintained a loose monetary policy and supported economic growth amid trade disputes and political uncertainty.

The Federal Reserve Bank and the Bank of England have lowered their policy rate near 0 while other central banks have maintained their policy rate /Figure 2.14/.

During the fiscal year, the Bank of Mongolia prioritized its assets' security by investing in major reserve currencies, allocated and unallocated gold, current and deposit accounts with highly regarded central banks such as the Federal Reserve System, the Bank of Japan, the Bank of England, and the Bank of France, as well as money market instruments issued by the Bank for International Settlements and other supranational. Meanwhile, the investment portfolio consists of 0-3year US Treasury bonds and Supranational bonds, which earned a higher return than the international benchmark in 2020.

The Bank of Mongolia purchased around 23.57 tons of gold from the domestic market in 2020, which is an increase of 55 percent compared with the last year. The main reason for the increase in gold purchasing was the COVID-19 pandemic. Due to the favorable gold price in the international market, the gold reserve was managed above the benchmark level within the approved deviation..

Figure 2.15 Foreign Exchange Reserve (in million USD) and Adequacy (monthly)



Source: The Bank of Mongolia

The Bank of Mongolia carried out its foreign reserve management in line with investment composition, optimal investment duration, and within the scope of established risk limits. As of December 31, 2020, the Foreign Reserve reached USD 4,526.6 million, increased by 4.3 percent or USD 185.5 million from the beginning of the year. This result is equivalent to:

- 44 weeks or 11 months of foreign currency-denominated import payment of the last 3 months average,

- 34.4 weeks or 8.6 months of foreign currency-denominated import and service payment of the last 3 months average,

The current level of foreign reserve adequacy is 4-6 months higher than the internationally accepted standard that requires reserve to be equal to 12 weeks or 3 months of foreign currency-denominated import payment (Figure 2.15). The Foreign Reserve level does not meet the National Security concept adopted by the Parliament on 15 of July 2010, which requires maintaining foreign reserve at a level not less than the annual foreign currency-denominated import payment.

2.5 PAYMENT SYSTEM OF MONGOLIA

To develop the national payment system and bring it in line with international standards, the Bank of Mongolia has extended the World Bank's technical assistance for another year. Based on exchanged views with the Bank's experts on the planned work for the next five years, work and relevant research have been conducted to develop a Strategy document for compliance with international standards to be approved in 2021.

The Bank of Mongolia decided to establish an innovation office based on conducting a study on the internationally accepted “Sandbox” regulation that supports the activities of fintech companies and improve the legal environment of the payment system. The establishment of the innovation office creates the opportunity for companies intending to provide payment services to work closely with the Bank of Mongolia to exchange information, obtain information on legislation and policy, propose innovative technologies, proposals and initiatives, and, if necessary, operate on a limited basis before obtaining a license.

Within the main goal of ensuring the reliability, efficiency, and security of the national payment system, we prepared to transfer the National payment ₮ card to international EMV chip technology, as well as to make it readable remotely. As a result, banks will be able to introduce a national brand ₮ card with a chip that meets the requirements of the EMV standard starting from the second quarter of 2021. In addition, the Bank of Mongolia has made changes to the logo of the National Electronic Transaction Center, ₮ card logo, and hologram, and presented the newly approved ₮ card hologram to card issuers and card suppliers.

In relation to an increase in non-cash payments due to the COVID-19 pandemic and other factors, the Bank of Mongolia has increased the maximum transaction limit for chip cards without requiring a PIN code to MNT 100,000. Another update was made to online purchases validated through a CVV code which is approved by the card issuer. This eliminates the need for users to enter a PIN code for low-value card purchases or online purchases.

In order to reduce the risk of delays and refunds of transactions through low-value interbank payment systems, the Bank of Mongolia has made changes to the “Automatic Clearing House System Rule”, which requires the inclusion of the customer's account name and number in the central account management (CAM). This will have a positive effect on the Government's timely payment of child allowances and tax refunds.

Renovation of the main data center of the National Electronic Transaction Center of the Bank of Mongolia in Ulaanbaatar and the reserve data center in Darkhan-Uul province was successfully completed, which was funded by the Payment System Modernization Project by the Asian Development Bank. The renovation of the new data center was completed following the TIER II standard of the Uptime Institute, increasing the infrastructure capacity of the national payment system and creating innovative technical opportunities. The data center renovation is an important step forward in ensuring the consistent and reliable operation of the payment system.

The card payment system of the National Electronic Transaction Center is being upgraded with funding from Asian Development Bank's Payment System Modernization Project.

One of the projects to be implemented by the Bank of Mongolia is introducing smartphone-based payment card transactions and token service systems. The introduction of these systems will enable the registration of card information on mobile phones and use it as a mobile wallet, make quick and secure payments remotely, and reduce the risk of card information loss, fraud, and fraudulent transactions. By implementing these subsystems in an integrated manner, the Bank of Mongolia will be able to provide mobile banking and token services to banks and financial institutions and save on duplicate infrastructure investment costs.

Payment System Oversight, license

Under the National Payment System Law, Clearing System Operator and Payment Agent Operation Regulation, Payment Card Regulation, and Electronic Money Regulation, the Bank of Mongolia has received a total of 21 license applications this year and resolved it as follows:

Extended licenses:

- License to issue and acquire payment cards to 2 banks;

Newly issued licenses:

- License to issue and acquire payment cards to 1 bank;
- License to acquire payment cards to 1 bank;
- License to issue payment instrument – e-money to 4 organizations;
- License to operate as a mobile banking processor to 1 organization;
- License to operate as a payment card processor to 2 organizations.

The Bank of Mongolia has been collecting legislative, descriptive, and statistical documents from the payment system participants, including operators, and monitoring its compliance and adherence to the regulations as part of its oversight activity. The Bank of Mongolia conducts on-site inspections regularly to ensure the safety, reliability, and efficiency of the payment system. In 2020, the on-site inspections of the participants of the payment system were performed covering the entities and activities listed below:

- Inspection of the operation of the Central bank Payment System Operator (Banksuljee system, 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 issuers.

Supervisors reported and corrected any discrepancies identified during the inspection.

Assessment of the “Banksuljee system”, the high-value payment system, was conducted to ensure its compliance with the Financial Market Infrastructure Principles and 5 responsibilities set by the Bank for International Settlements. The assessment concluded that out of the 24 infrastructure principles, 12 principles were fully observed, 4 principles generally observed, 1 principle partially observed, and 7 principles were inapplicable.

Assessment on the Central bank Securities Settlement System of the Bank of Mongolia shows that 13 out of 24 principles were fully observed, 3 principles were generally observed, 1 principle was partially observed, and 7 principles were not applicable.

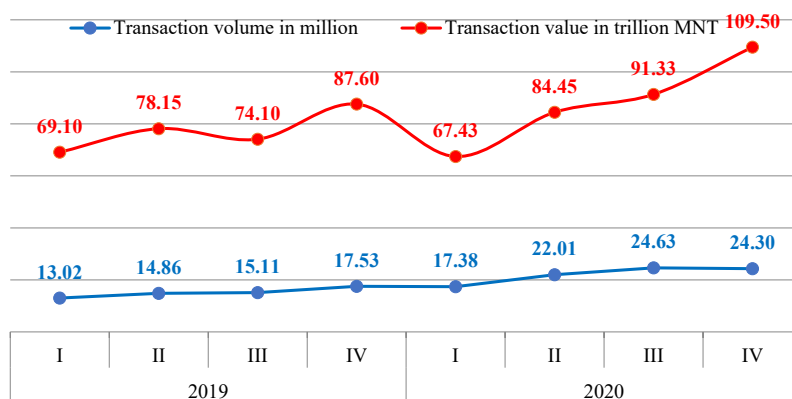
The total number of interbank transactions made during the reporting year increased by 45.9 percent, whereas the transaction amount increased by 14.2 percent compared to the previous year. Figure 2.16 illustrates the

quantitative data of interbank transactions between 2019 and 2020 shown in Table 2.5.

Table 2.5 Interbank transactions, volume and value, 2019-2020 (volume in thousands, value in trillion)

	2019 оН ¹		2020 оН			
	Volume	Value	Volume	Change %	Value	Change %
I quarter	13,021.60	69.10	17,375.01	33.43%	67.43	-2.41%
RTP ²	12,727.40	2.50	12,599.90	-1.00%	3.05	22.00%
ACH ³			4,454.91		0.23	
RTGS ⁴	294.2	66.60	320.20	8.84%	64.15	-3.68%
II quarter	14,856.30	78.15	22,014.99	48.19%	84.45	8.06%
RTP	14,474.40	3.05	15,498.30	7.07%	3.65	19.67%
ACH			6,113.57		0.64	
RTGS	381.9	75.10	403.12	5.56%	80.16	6.74%
III quarter	15,114.00	74.10	24,626.75	62.94%	91.33	23.25%
RTP	14,727.20	3.20	17,435.66	18.39%	4.07	27.19%
ACH			6,764.71		0.61	
RTGS	386.8	70.90	426.38	10.23%	86.65	22.21%
IV quarter	17,532.40	87.60	24,302.57	38.62%	109.50	25.00%
RTP	17,099.40	3.70	17,705.55	3.54%	4.12	11.40%
ACH			6,171.82		0.87	
RTGS	433	83.90	425.20	-1.80%	104.51	24.57%
Total	60,524.30	308.95	88,319.32	45.92%	352.72	14.17%
RTP	59,028.40	12.45	63,239.41	7.13%	14.89	19.61%
percentage	97.53%	4.03%	71.60%		4.22%	
ACH	0.00	0.00	23,505.01		2.35	
percentage	0.00%	0.00%	26.61%		0.67%	
RTGS	1,495.90	296.50	1,574.90	5.28%	335.47	13.14%
percentage	2.47%	95.97%	1.78%		95.11%	

Figure 2.16 Interbank transactions, volume and value, 2019-2020



The number and volume of transactions in the first quarter of 2020 declined. Specifically, in the fourth quarter of 2019, the transaction value and volume were MNT 87.6 trillion and 17.5 million units respectively. While in the first quarter of 2020, it decreased by MNT 20.2 trillion to MNT 67.4 trillion and decreased by 157.4 thousand units to 17.4 million. At the end of 2020, 24.3 million units worth MNT 109.5 trillion were transferred which is an increase of 6.7 million units and 21.9 trillion MNT compared to the end of the previous year.

¹ The amount of interbank transactions has increased sharply due to the consolidation of transaction data transferred by the Bank of Mongolia into high-value transaction data from the first quarter of 2019.

² RTP – Low-value payment system (real-time)

³ ACH – Low-value payment system (bulk)

⁴ RTGS – Banksuljee, high-value payment system

Payment card

The increase in the usage of payment cards every year indicates the public's interest in non-cash payment instruments for their day-to-day transactions. Banks are issuing six types of payment cards, including the National brand ₴ card, Visa, MasterCard, Union Pay, American Express, and JCB. The National brand ₴ card occupied 63.6 percent of total card usage and was used extensively in the market in 2020.

Table 2.6 Usage of payment cards, 2017-2020

Card usage (million)	2017	2018	2019	2020	Growth (%)
Cardholder	3.8	4.3	3.7	4.1	8.8
Active cardholder	1.7	1.6	1.9	1.86	-1.9
Number of cards by type (thousands)					
₴ card	2801.4	3115.6	2600.8	2594.6	-0.2
Visa	621.2	680.1	392.7	519.0	32.2
Mastercard	14.6	28.4	76.3	123.4	61.8
Unionpay	394.8	458.0	664.6	828.0	24.6
Amex	12.4	7.3	4.5	4.1	-8.2
JCB	0.2	1.8	9.2	8.7	-5.0
Number of devices⁵					
POS	27,304	42,014	59,703	70,753	18.5
MPOS	3,499	3,784	2,803	2,036	-27.4
POB	2,031	2,177	2,242	2,915	30.0
ATM	2,031	2,358	1,259	1,084	-13.9
CDM	-	-	388	42	-89.2
CRM	-	-	1,674	1,595	-4.7
Online trade	-	-	773	1,112	43.9
KIOSK (with POS)	-	-	163	264	61.9
other	-	-	0	0	0.0

Table 2.6 shows that the number of payment cards increased by 8.8 percent in the reporting year, but the number of active card users decreased by 1.9 percent. In terms of device data, the number of POS devices increased by 18.5 percent compared to the previous year, indicating an increase in card and non-cash payments for goods and services.

Table 2.7 Card payments, 2019-2020 (volume in thousand, value in trillion)

№	Devices		2019, IV quarter	2020, IV quarter	Change	Change %
1	POS	Volume	80,457.2	99,073.6	18,616.5	23.1%
		Value	2,013.0	2,311.0	298.0	14.8%
2	MPOS	Volume	82.0	12.3	(69.7)	-84.9%
		Value	1.4	0.6	(0.8)	-58.9%
3	POB	Volume	421.1	317.3	(103.8)	-24.7%
		Value	119.4	76.1	(43.3)	-36.3%
4	ATM/CRM/CDM	Volume	31,586.6	22,614.6	(8,972.0)	-28.4%
		Value	8,200.1	6,251.5	(1,948.6)	-23.8%
5	Online trade	Volume	290.7	485.2	194.5	66.9%
		Value	13.0	20.0	6.9	53.2%
6	KIOSK (with POS)	Volume	73.2	76.6	3.4	4.6%
		Value	2.2	1.3	(1.0)	-43.7%
7	other	Volume	0.0	0.0	0.0	0.0%
		Value	0.0	0.0	0.0	0.0%
Total		Volume	112,910.8	122,579.7	9,668.9	8.6%
		Value	10,349.1	8,660.4	(1,688.8)	-16.3%

⁵ Starting from the fourth quarter of 2019, 9 types of devices have been registered

In terms of transaction volume, the highest number of POS transactions was 99.1 million in the reporting year. In terms of transaction value, ATMs, CRMs and CDMs accounted for the largest amount of MNT 6.3 trillion. Compared to the previous year, e-commerce was the most used device, with transactions increasing by 66.9 percent (volume), 53.2 percent (value), respectively.

2.6 BANKING SECTOR LEGAL REFORM

In 2020, the Parliament of Mongolia set long-term development goals for the banking and financial sector and initiated major legislative reforms to build good governance in banking and to reduce interest rates. It has also been a unique period where a special legal regime was put in place for specific measures and regulations in the banking and financial sector to mitigate the adverse impact and risk of the COVID-19 pandemic on the economy.

The Bank of Mongolia has continued the legal reforms in the financial sector stipulated in the Monetary policy Guidelines for 2020 approved by Parliament Resolution No. 98 in 2019. The Bank of Mongolia created a legal framework for strengthening risk-bearing capacity, establishing sound governance principles, and enabling public participation and oversight practices in the banking sector as a part of ensuring long-term development policy goal of “risk-tolerant and reliable banking and financial market”.

During its autumn session in 2020, the Parliament passed the “Act on Amendments to the Banking Act” and other related Acts which stipulate that banking activities are to be undertaken only in the form of a joint-stock company and any person and their affiliate or related persons shall not hold shares in a bank exceeding 20 per cent of all its voting shares. It would ensure the balance between the ownership rights of banks’ shareholders and their control in bank management and reduce the risk of banking activities arising from the concentration of banks’ share ownership. The amendment also improves the legal basis for more effective banking supervision and enforcement measures.

As domestic COVID-19 cases started being reported in Mongolia, the authorities started imposing lockdowns and quarantine regimes. The Parliament passed the resolution on “Measures for ensuring financial and economic stability, risk prevention and transition to electronic services in the public sector during the coronavirus pandemic” as well as the “Act on preventing and fighting the coronavirus pandemic whilst mitigating its adverse impacts on the society and economy” to reduce operational risks in banking and loan cost whilst providing allowances to banking customers. The law creates the legal ground for undertaking unconventional measures, where necessary, to ensure normal operation of the payment and settlement system in the banking and financial sector and to provide the central bank with the power to take actions in preventing and dealing with adverse social and economic impacts of the COVID-19 pandemic.

In particular, the Bank of Mongolia has been empowered to grant loans to banks and use the legal means to ensure the stability of the national currency-togrog and the banking and financial system, support specific economic sectors and improve the financial position of banks. It also has been vested with the powers to issue loans to domestic banks and financial institutions and purchase securities from banks on the terms of receiving and purchasing foreign currencies from foreign countries as well as domestic, foreign, and international banks, financial institutions and legal entities through loans and other transactions to increase and regulate foreign exchange reserves.

New rules have been introduced regarding bank deposits so that no interest is accrued on callable deposits and current accounts held with banks. Deposits with special terms earn interest at the rate applicable to ordinary deposits, and that private individual and legal entities are not allowed to conduct transactions and settle payment obligations using foreign currency. In addition, the law stipulates that it will be deemed to be a valid transaction or agreement effected in the same manner as specified in section 421 and subsection 196.1 of the Civil Code in e-financial services, if a bank or licensed legal entity receives an offer from a person who has an account with

that bank or licensed legal entity and has a stable financial relationship therewith via their registered e-mail or hardware instrument, software or others means, such as password, personal identification code or digital signature etc., that meets confidentiality requirements.

The Parliament of Mongolia is currently discussing the draft revision of the Currency Regulation Act which constitutes the primary legal source for the state policy on currency regulation; the draft revision of the Treasury Act that regulates matters pertinent to the protection of Mongolia's treasury sources, the compilation, protection and enriching of the national treasury, and the treasury circulation and its management; and the revision of the Act on Savings, Payment, Clearing and Settlement Services and Lending Activities of Banks and Licensed Legal Entities that have been drafted with provisions for protecting customers' rights, with general terms set out to apply to banks and licensed legal entities in their savings, lending and clearing and settlement services.

"The Strategy for reduction of interest rate" approved by Parliament Resolution No. 21 in 2020 sets out for revising the Civil Code as well as other laws applicable to banking activities. It prioritizes reducing banks' operating costs by expediting the resolution process of non-performing loans through creating repayment incentives, foreclosing loan collateral assets, and applying out-of-court alternative dispute resolution methods in litigation. In this endeavor, the Bank of Mongolia has collaborated with the relevant agencies and counterparties in creating a strong regulatory framework in the banking and financial sector.

2.7 NATIONAL PROGRAM FOR FINANCIAL LITERACY

The Bank of Mongolia, the Ministry of Finance, the Ministry of Education, Culture and Science, and the Financial Regulatory Commission jointly launched the "National Mid-Term Program for Financial Literacy" in 2016 to ensure financial stability, increase financial participation, and improve financial decision-making of the citizens in Mongolia.

In cooperation with relevant government and professional organizations, the program provides financial literacy to the public in four priority areas: school children, young people, rural residents, and through mass communication/media.

This program is expected to yield the following positive externalities:

- Increase public knowledge of financial products and use them more effectively;
- Improve citizens ability to choose the right financial product for their needs;
- Prevent financial fraud and reduce the number of victims;
- Increase individual savings and decrease non-performing loans;
- Support participation and investment in the stock market.

Activities under the program are focused on the following key 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 2020:

Legal environment

Government of Mongolia

The Government approved the "National program to develop Mongolia's financial market until 2025" through resolution No.299 in 2017, with the objective 6.2 to "Every Mongolian citizen shall possess the knowledge, skills and confidence necessary to manage his/her personal and household finance in an appropriate way" and has been implemented in 2020.

Monetary policy implementation

The Monetary Policy Guidelines for 2020 was approved by the Parliament of Mongolia through Resolution No.98 on December 5, 2019, with the objective 3.3 specified to enhance the "National Program for Financial Literacy" and has been implemented.

Draft law on financial consumer protection

According to Article 5.7 "Protect legal rights and interests of bank customers and depositors" of the Law on the Central bank (Bank of Mongolia), a draft law on financial consumer protection was developed. It was decided to discuss the draft law at the meeting of the Parliament's Standing Committee on Economics and present it to the Parliament.

The purpose of this law is to protect financial consumers' 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.

Loan Rate Reduction Strategy

With the recommendation from the Financial Stability Committee, the Bank of Mongolia is implementing the "Loan Rate Reduction Strategy 2018-2023" and the objective No.11 of the Strategy states "Implementation of programs and activities to improve the financial education of financial institutions, their customers and the public" and activities are being carried out accordingly. Moreover, to support the continuation of this strategy at the state level, the Parliament approved a resolution on the "Strategy for reduction of interest rate" on August 28, 2020. Through the concept of reducing the credit risk costs, the provision of this strategy "Protecting the interests of financial consumers and improving the basic financial knowledge of the public" is reflected and implemented.

Financial literacy for school pupils

- On August 1, 2019, the Minister of Education, Culture, Science, and Sport issued decree No. A/491 on "Renewal of training curriculum", which the "Business Studies" was approved as an elective subject for the secondary school curriculum. To implement this, social studies teachers are teaching business studies and the Bank of Mongolia is supporting this work.
- To provide methodological support for the implementation of the general education curriculum and to improve the curriculum, 550 teachers are already trained nationwide, and these teachers taught the subject of business studies through online training platforms in 2020.

Financial literacy for youth

- Under the National Program for Financial Literacy, a 3-credit compulsory course on “Personal Finance” is available at 13 accredited universities.
- A total of 1,200 students took the “Personal Finance” course both in-class and virtually in 2020.
- In cooperation with the National Center for Lifelong Learning, the Financial Regulatory Commission, and the Microfinance Development Fund, the Bank of Mongolia trained 729 financial trainers under the National Program for Financial Literacy and provided knowledge and information to young people in 2020.
- Published 24,000 copies of financial literacy hand-outs on different financial topics, including “How to Manage Money?”, “Loans”, “Household Budget”, “Savings”, “Price Stability” and “Exchange Rates”.
- In 2020, the Bank of Mongolia signed a memorandum of understanding with the Authority for Family, Child, and Youth Development to implement targeted activities to provide financial education to youth. As a result of the parties' cooperation, the financial literacy of young people will be improved and create new opportunities to support their financial decision-making skills and support their knowledge and understandings of personal finance and savings.

Financial literacy through mass communication/media.

- A webpage for financial education, www.sankhuugiinbolovsrol.mn, has been regularly updated and provided financial knowledge.
- Developed and published articles on financial education in monthly brochures such as "Information of the Bank of Mongolia", “Mongolian women” and “Salute you” quarterly magazine from the General Police Department.
- The “Financial Education” Facebook page is regularly updated with news and information, and it had over 6000 followers at the end of 2020.
- On the Mongolian National Public Radio 29 episodes of the “Financial Tree” program aired in 2020 to support the understandings of financial literacy topics of the people and all episodes were broadcasted live on the Facebook page of the radio. Furthermore, jointly prepared 18 episodes of the “Simple Economy” radio program with the “PI 3 radio” of the Mongolian National Public Radio and Television, and worked to provide general concepts of finance and economics, in simple term.

Cooperation with international organizations.

Representative office of Sparkassenstiftung in Mongolia

It has been 4 years since The Bank of Mongolia, the Mongolian Bankers Association, the German Savings Bank Foundation for International Cooperation “Sparkasse” and the Ostprignitz-Ruppin Sparkasse started implementing “Introduction of dual vocational training for bank specialists” and celebrating “the World Savings Day in Mongolia”. During this period, 95 trainers were prepared and a total of 185 participants from 11 commercial banks successfully participated in the 7-module training. This year, a total of 30 specialists from Ulaanbaatar have successfully graduated.

The Bank of Mongolia, the Deposit Insurance Corporation, the Mongolian Banking Association, the Sparkasse Banking Fund in Mongolia, and 11 commercial banks jointly organized the “World Savings Day” campaign, with the slogan of “Saving is easy”. The events for World Savings Day were successfully organized not only in Ulaanbaatar but also in several provinces. For instance, general events for the campaign were held on October 20 in Darkhan-Uul aimag, on October 22 in Orkhon aimag, on October 27 in Sukhbaatar aimag, and concluded on October 31 in Ulaanbaatar, with conducting activities to give knowledge on financial literacy and savings

and promote the saving habits.

European Bank for Reconstruction and Development (EBRD)

The Bank of Mongolia and the European Bank for Reconstruction and Development (EBRD) have jointly initiated a project on “Strategy for Financial Education for Micro, Small and Medium Enterprises (MSMEs)” in 2020. Within the framework of this project, a wide range of measures will be implemented to train trainers, provide training for MSMEs, and improve their financial education, and as a result, the final concept note of the project will become the main material of the “Sub-program for the financial education of micro, small and medium enterprises”, which will be approved jointly with Ministry of Food, Agriculture and Light Industry.

OECD International Network on Financial Education

Under the OECD's Eurasia Competitiveness Program, the OECD monitored the results of its cooperation with the Government of Mongolia to improve access to finance for small, medium and medium enterprises. Based on the findings the central bank worked to improve the financial education of MSMEs. Currently, the Bank of Mongolia is working as a permanent member of OECD's international network for education.

3.1 OPEN MARKET OPERATIONS

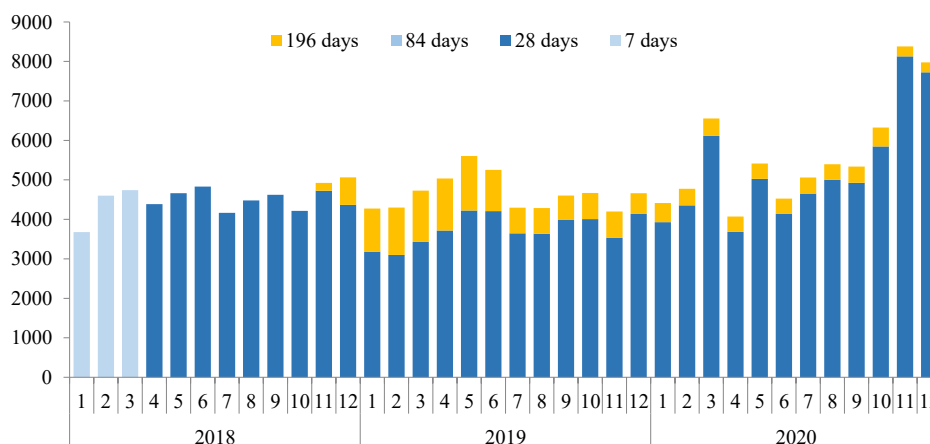
Central Bank Bills

Open Market Operations or Central bank Bills (CBB) auction is the main instrument of the Central bank in implementing its monetary policy objectives by managing the fluctuation in the interbank short-term rate and the reserves of the banking system. In 2020, the Bank of Mongolia auctioned the following types of CBBs with different yields, maturities, and types of bids.

- The Bank of Mongolia has issued CBBs with a maturity of 4-week every Monday with a fixed rate and no ceilings on the bidding amount. The interest rate of this CBB is considered as a policy rate and this type of CBB plays a crucial role in absorbing the excess reserves in the banking sector and assist the banks in managing their reserves.
- The Bank of Mongolia has issued CBBs with a maturity of 28-week on Wednesday of every two weeks with pre-announced auction amount and interest rate ceiling. The aim of this type of CBBs is absorbing systemic structural excess reserves, increasing trade of long-term security in the interbank market and determining the yield curve for the tenor of up to 6 months, and improving the monetary policy transmission mechanism.

The total outstanding amount of CBBs has increased by MNT 3,331.7 billion, reaching MNT 7,975.2 billion at the end of 2020. Of which, 96.1 percent were 4-week CBBs, and the remaining 3.9% were CBBs with a maturity of 28 weeks. This increase can be mainly attributed to (i) an increase in the purchase of gold with the amount of MNT 2,862.4 billion (ii) an increase in the Government net lending by MNT 590.8 billion.

Figure 3.1 The total outstanding amount of CBB (by maturity, in billion MNT)



Source: The Bank of Mongolia

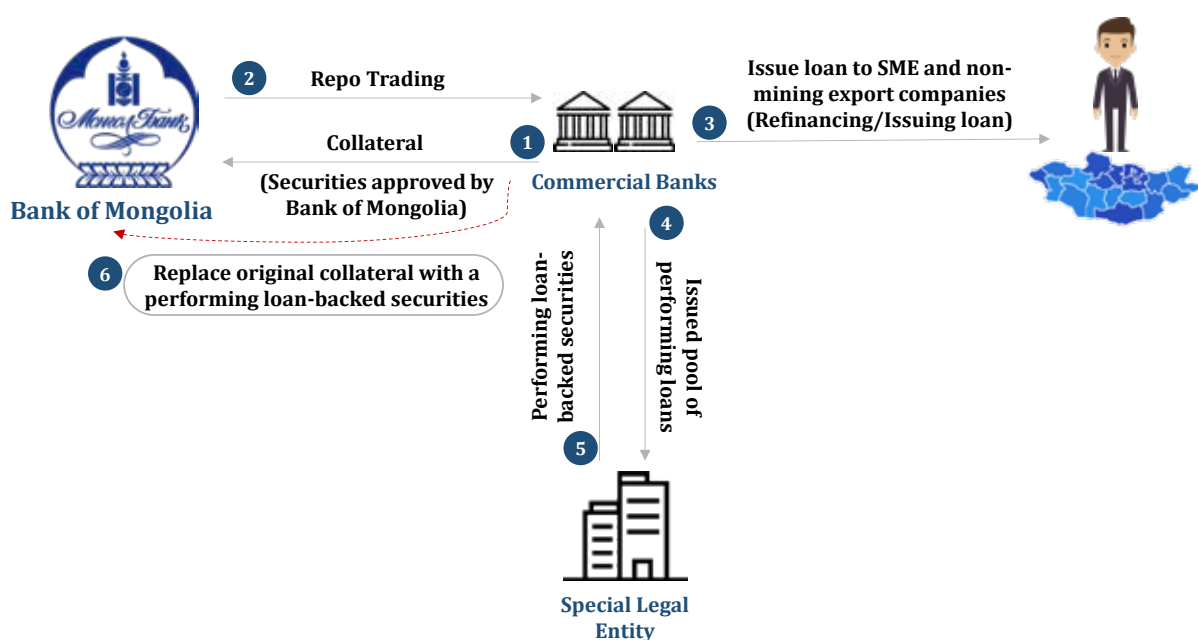
Repo trading

The central bank's repo operation provides liquidity to banks, using securities that banks hold as collateral and banks agree to repurchase the collateral at the end of the period. In line with the Bank of Mongolia's strategy to reduce the interest rate and to eliminate the adverse impact of the COVID-19 pandemic on the economy, the tenor of the repo operation agreements was extended to two years, and the collateral list expanded. To create inclusive growth and reduce the debt burden of SMEs and non-mining export sectors, repo trading sources was provided to enterprises and individuals by the loan conditions approved by the Bank of Mongolia's Governor's Decree 426. These changes will:

1. Mitigate the negative effects of the economic downturn and financial intermediation,
2. Economic diversification and support for exporting enterprises, and
3. Opportunities to launch new products in the financial market.

In the reporting year, the Bank of Mongolia financed MNT 230.0 billion to banks through repo trading. Figure 3.2 shows a scheme for banks to issue loans, securitize their loans, and obtain financing from the Bank of Mongolia.

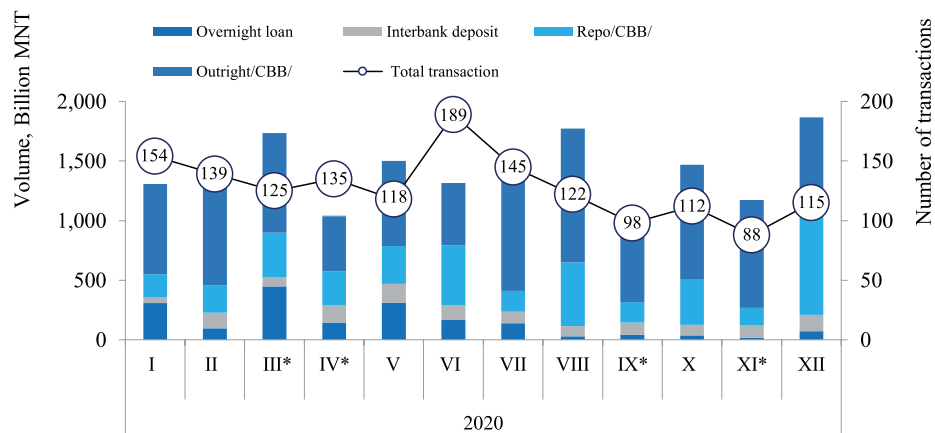
Figure 3.2. Long-term financing scheme with performing loan-backed securities



Interbank market transaction

The Bank of Mongolia has been ensuring the stable daily operations of the interbank market. During the reporting year, the monthly average amount of the interbank market's overnight transaction reached MNT 153.4 billion, repo transaction reached MNT 362.2 billion, and outright purchase of CBBs reached MNT 765.3 billion. The average maturity of interbank market transactions was 12.6 days, which is a length that decreased by 2.5 days from the previous year (Figure 3.3).

Figure 3.3. Total transaction of the interbank market (by instrument, in billion MNT)



Source: Bank of Mongolia

3.2 CENTRAL BANK STANDING FACILITIES

In order to reduce the interest rate volatility at the interbank market, the Bank of Mongolia offers standing facilities that either absorb or provide liquidity to assist the banks to manage their reserves. These standing facilities include the overnight deposits that absorb the excess reserve and the overnight repo financing that provide liquidity to the banks when they initiate it.

Within the central bank's interest rate policy framework, the lowest and the highest rate of the central bank's interest rate corridor is determined by the overnight deposit rate and repo financing rate, respectively. During the reporting period, the interest rate corridor width has been 200 basis points (policy rate \pm 100 basis points).

In 2020, the Bank of Mongolia provided MNT 3,087.9 billion to the commercial banks through a repo financing facility with a weighted average interest rate of 10.3% and received a total of MNT 32,702.9 billion of overnight deposit with a weighted average interest rate of 7.2% from banks.

3.3 OTHERS

Intraday credit

The intraday credit is a monetary instrument of the central bank that assists the payment system to run smoothly by providing liquidity to banks with short-term liquidity issue in a day. Intraday credit must be repaid within the same day and it has a zero-interest rate. In 2020, there was no case of using this facility.

Secured loan

In accordance with the "Secured loan regulation" approved by the Governor's decree No.A-174 of the Bank of Mongolia on June 15th, 2018, as a lender of last resort, the Bank of Mongolia provides secured loans to banks to support banks' liquidity by preventing solvency issues. The Governor of the Bank of Mongolia issued decree No. A-97 on March 20, 2020, making the following changes to the terms of the secured loan provided by the Bank of Mongolia to the bank until December 31, 2020. These changes include firstly, extending the term of the secured loan from 3 months to 6 months and secondly, reducing the interest rate on a secured loan by 5 percentage and providing the loan with the interest rate, which is equivalent to the highest interest rate of the central bank's standing facilities. However, in 2020, no secured loans under this regulation were provided to the banks.

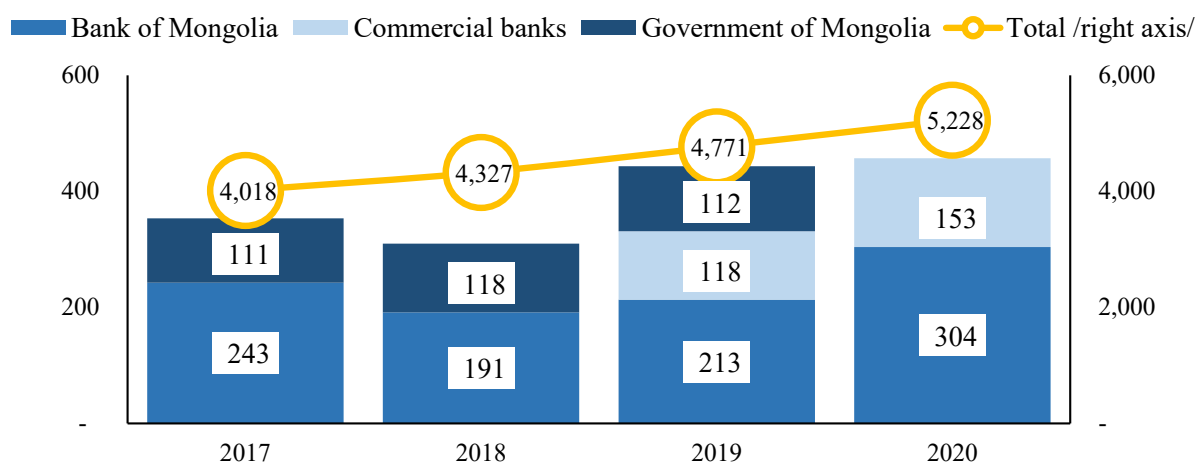
In order to improve the financial situation of the banks and maintain the stability of the banking sector, considering the social and economic situation during the COVID-19 pandemic, the Governor of the Bank of Mongolia issued decree A-192 on June 3, 2020 “Temporary regulation on Bank of Mongolia loan to the banks”. Under this regulation, MNT 6.1 billion of the secured loans were issued to the banks to support their liquidity during the COVID-19 pandemic.

Mortgage program financing

In 2013, the Bank of Mongolia and the Government of Mongolia initiated the “Establishing stable housing finance scheme” program as the second part of the “Assisting construction sector and further stabilizing housing price” sub-program. The main objective of the mortgage program is to help low-mid range income households improve housing, reduce air and soil pollution, neutralize migration from a rural area to the capital city.

At the end of 2020, a total mortgage loan of MNT 5.2 trillion has been issued to 91.6 thousand households with financing from the Bank of Mongolia, the Government of Mongolia, and commercial banks (Figure 3.4).

Figure 3.4. Mortgage financing, in billion MNT



Source: Bank of Mongolia

To accommodate the implementation of the program, expand sufficiency, focus further on the target borrowers, the Bank of Mongolia made changes to the regulations lowering the interest rate of the mortgage loans to 6% p.a. starting from October 1, 2020 (Table 3.1).

Table 3.1. Issuance of mortgage loan in 2020, in billion MNT

Source	Amount			Number of households		
	8%	6%	Total	8%	6%	Total
Bank of Mongolia	205.7	98.2	303.9	3,084	1,568	4,652
Commercial banks	87.1	66.0	153.2	970	710	1,680
Total	292.8	164.3	457.1	4,054	2,278	6,332

Source: Bank of Mongolia

Thus, lowering the mortgage loan interest rate to 6% p.a. the borrower's monthly payment is reduced by around 20%, followed by the required income of households to be reduced by the same proportion. This results in several benefits, such as increased opportunities for lower-income households to get a mortgage loan, lowered loan burden during the pandemic, increased household spending, and decreased loan risks.

On the contrary, mortgage financing was reduced as a result of the decision. In other words, banks used to match the Bank of Mongolia's financing amount to finance the mortgage program. However, with the lowering of the interest rate, banks' share in financing has been reduced to 40% of the total mortgage program and the Bank of Mongolia has to finance 60%, decreasing the total financing of the program by around 16.7%. The 6% p.a. mortgage loan interest rate in Mongolia is consistent with other emerging markets, such as China, New Zealand, and Australia.

In accordance with the "Law on Preventing and combating COVID-19 and reducing its social, economic negative impact" and the Parliament Resolution No.32 in 2020, banks received and granted requests from the borrowers to defer their mortgage loans. From around 46,115 borrowers' (with MNT 2.35 trillion outstanding loans) mortgage deferral requests, around 38,152 borrowers (with over 2 trillion togrog outstanding loans) deferred their monthly mortgage payments. This consists of 59% of the total mortgage program loan.

Financing the rent backed security program

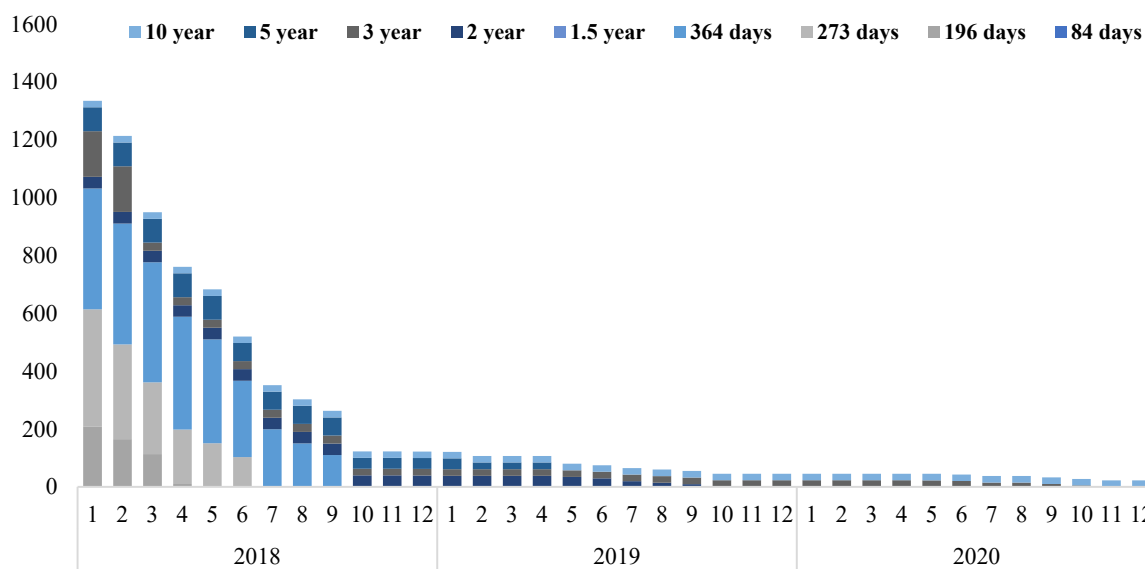
Per Article 10.5 of the "Law on Preventing and combating COVID-19 and reducing its social, economic negative impact" and Article 2.6 of the Parliament Resolution No.32 in 2020, within the framework of the program, 420 government and civil servants performing in high risks conditions have been provided with housing through the purchase and financing of MNT 34.4 billion rent-backed security by the Bank of Mongolia. The security is issued by the Capital City Housing Corporation.

3.4 GOVERNMENT SECURITIES (GS)

Starting from October 2012, the Government issued and traded government securities in the primary market through the Bank of Mongolia to improve the Government's financial management and to improve the money market instruments. Government securities are considered as a risk-free investment in the financial market and the interest income earned on these securities are exempt from taxation. It is also considered that the regular trading of government securities supports the development of the financial market in several ways, such as setting risk-free interest rates in the financial market, otherwise known as a yield curve and determining the impact of short-term interest rates on long-term interest rates, and it also increases financial market activity. However, by the decree of the Minister of Finance, the issuance of the government securities has stopped since November 2017.

By the end of 2020, the outstanding amount of government securities decreased by MNT 22.8 billion and reached MNT 22.5 billion (Figure 3.5). Furthermore, government securities with a maturity date of up to 3 years have expired by October 2020, and the remaining government securities have a maturity of 10 years.

Figure 3.5. Outstanding Government Security amount acquired through the BOM auctions (billion MNT)



Source: The Bank of Mongolia

“The regulation on the operation of domestic government securities in the primary and secondary market” was approved by Resolution No.77 of the Government on February 20, 2019. However, there has been no Government bonds traded on the secondary market, even though the relevant regulation was still effective, and the platform was available. Since there were no new government securities issued in the primary market and the only outstanding government securities were expiring in 2020, it contributed largely to the increase of outstanding balance of central bank bills from MNT 4.8 trillion in 2019 to MNT 8 trillion in 2020.

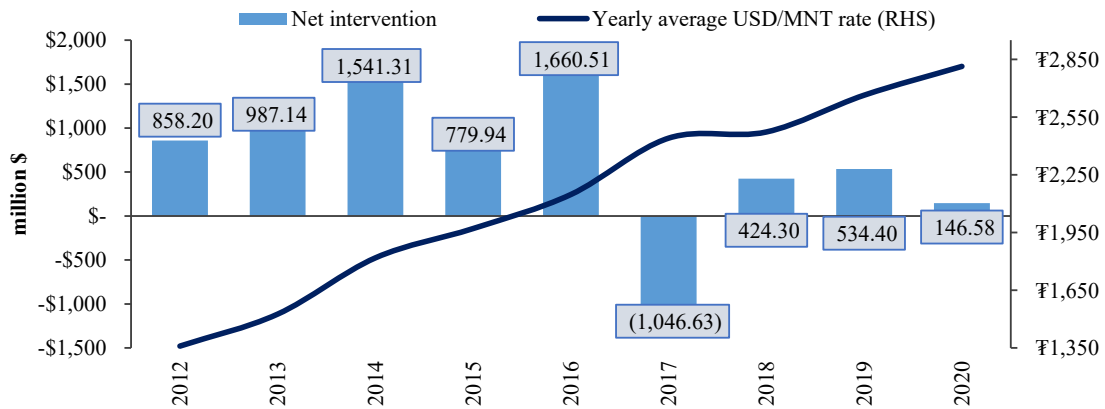
3.5 FOREIGN EXCHANGE INTERVENTION

The Bank of Mongolia has been working to ensure that togrog’s exchange rate flexibility, consistent with macroeconomic fundamentals. Therefore, the central bank intervened in the domestic foreign exchange (FX) market to mitigate the exchange rate fluctuations due to the short-term demand and supply gap.

Due to the increased border restrictions by the Chinese government related to the COVID-19 pandemic spread, Mongolian exporting measures of coking coal and mining raw materials have decreased in the first half of 2020 and became the cause of the increased balance of payments deficit and MNT depreciation against foreign currencies. However, in the second half of 2020, with the aid of grants and loans from foreign financial institutions regarding the economic situation in Mongolia, along with the steady price growth on mining raw materials such as coal, copper, and iron ore which eventually reached the all-time peak, the balance of payments deficit and MNT depreciation have decreased relatively.

As a result, the Bank of Mongolia intervened in the FX market with a net amount of USD 146.6 million through FX market instruments.

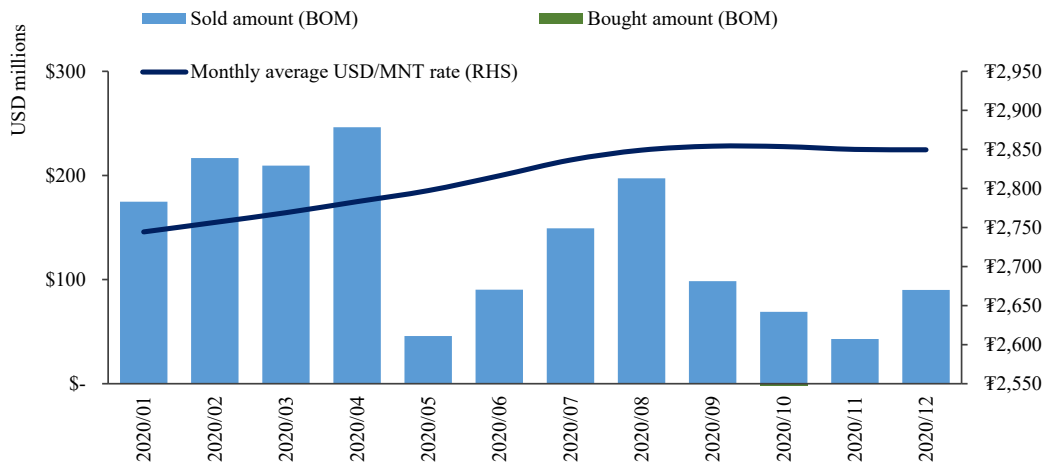
Figure 3.6. Net FX intervention of Bank of Mongolia in 2012-2020 /in million USD/



Source: The Bank of Mongolia

In 2020, the Bank of Mongolia organized 101 FX auctions and sold a total of USD 2,503.1 million through FX auctions and foreign currency online trading system which is a 10.1 percent decrease from the previous year. According to the joint resolution of the Minister of Finance, Chief Cabinet Secretary, and the Governor of the Bank of Mongolia, the central bank bought a total of USD 1,776.5 million from state-owned and dominantly state-owned entities. According to the Central bank law, the Bank of Mongolia fulfilled the role of financial intermediary of the Government with executing principal and interest payment of foreign loans and bonds, which amounted to a total of USD 187.9 million.

Figure 3.7 USD auction /USD millions/

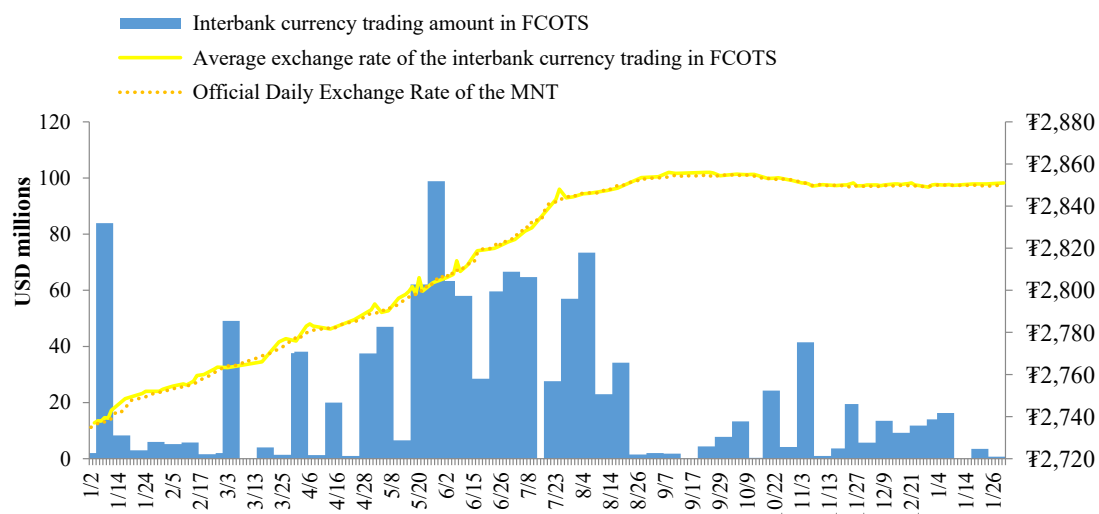


Source: The Bank of Mongolia

Foreign currency online trading system

Following the “Monetary Policy Guideline in 2017”, the Bank of Mongolia introduced an electronic trading platform of interbank based on Bloomberg terminal in April 2017 to develop domestic FX market infrastructure and increase its transparency and efficiency. After that, the Bank of Mongolia set up a domestic “Foreign Currency Online Trading System” (FCOTS) based on domestic software. The system is crucial in clarifying the exchange rate determination process in the market, reducing counterparty and settlement risks, and simplifying the currency trading process.

Figure 3.8. Interbank currency trading in Foreign currency online trading system /USD millions/



In 2020, 189 trades were executed by banks through the foreign currency online trading system which equaled a total of 153.9 million USD, and the Bank of Mongolia intervened in the FX market to a net of 877.9 million USD through this trading system.

Financial derivatives

The Bank of Mongolia introduced short-term financial derivatives in 2010 and long-term swap agreements in 2014 to support the short-term liquidity of the banks and the economy as a whole, mitigate exchange rate risk, reduce the pressure on the spot market and dollarization in the domestic FX market.

As the COVID-19 pandemic affected the global financial markets in 2020, the Bank of Mongolia's Governor's decree No. A-167 on June 9, 2020, and No. A-379 on September 21, 2020, made amendments to the Long-term swap agreement. Through this, low interest rates and the availability of long-term financing will support the economy and reduce the exchange rate risk in the domestic market.

There were a total of 538.0 million short-term USD swap agreements made in the reporting period. With regards to the long-term swap agreements, commercial banks make agreements with the central bank using external financings with over a one-year maturity. Therefore, in 2020, the long-term swap agreements between the Bank of Mongolia and commercial banks amounted to USD 372.5 million, of which 120 million USD were deliverable and 252.5 million USD were non-deliverable swaps. Compared to 2019, the total amount of long-term swap agreements decreased by 44.1%, or 297.7 million USD. Nonetheless, 712.3 million USD of long-term swaps has matured and its outstanding amount decreased by USD 339.8 million to USD 1,657.8 million.

3.6 GOLD FINANCING & PURCHASE OF PRECIOUS METALS

In June 2020, the Bank of Mongolia launched the “Gold-2 national program” to increase foreign currency reserve by offering low interest rate loans to gold mining companies through commercial banks. As of December 31, 2020, the Bank of Mongolia executed MNT 52.85 billion in short-term financing, and MNT 71.24 billion in long-term financing, which is a total of MNT 124.1 billion, to 13 gold mining companies through 5 commercial banks. The Bank of Mongolia was able to purchase a total of 1,247.99 kg of gold from the 13 companies.

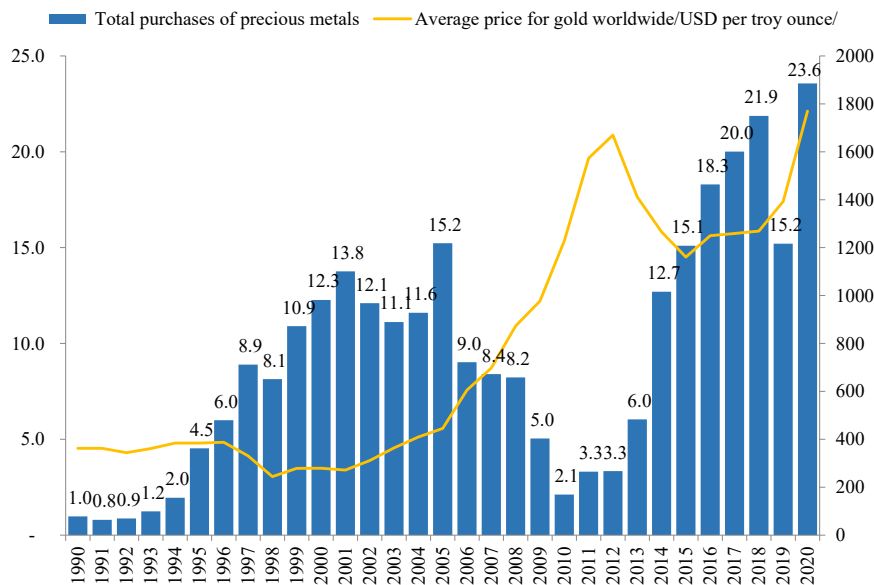
The Bank of Mongolia's purchases of precious metals reached 22 tons in 2018, 15.2 tons in 2019, and reaching 23.6 tons in 2020, which increased the foreign currency reserve by over 900 million USD (Figure 3.9). The increase in precious metals purchases from previous years was due to the launch of the Gold-2 national program, which increased purchasing of gold by 1,247.99 kg.

As part of its efforts to increase the purchase of precious metals, the Bank of Mongolia is purchasing precious metals through the branches in Bayankhongor and Darkhan-Uul provinces. The Treasury fund, in cooperation with the Mongolian Assay office, has made changes to the registration software of origin of precious metals and started to receive the assay certificate online to make payments quickly in line with the Law on Electronic Signatures.

Within the framework of supporting responsible mining, relevant agreements have been concluded to increase and export the production of precious metals with fair mining certificates. This will allow artisanal miners engaged in environmentally friendly, child labor-free, and mercury-free gold mining to sell their gold on the international market at an additional premium price.

In the framework of formalizing the activities of precious metal traders within the non-financial business owners, the Treasury fund started operations in selling the official refined raw materials with a certificate of origin from Mongolia to artisans who are engaged in jewelry and art.

Figure 3.9. Precious metal purchase by the Bank of Mongolia (annually).



Source: The Bank of Mongolia

4.1 ORGANIZATIONAL STRUCTURE

With a new organizational structure, the Bank of Mongolia has twelve departments, one center, one institute, three independent units in the head office, and 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 621 employees, with 501 employees in the head office and 120 employees in the regional branches and divisions.

Within the framework of the medium-term operational reform program in 2020, the Bank of Mongolia carried out several activities aimed towards organizational restructuring, strengthening human resource capacity and the legal environment, reinforcing our cooperation, and implementing advanced technology and practices.

The central bank's organizational restructuring included reorganizing the Supervision Department and newly establishing the Banking Resolution and Policy Department. Additionally, Financial Information Unit was restructured by decree No. A-27 of the Governor on February 3, 2020, and Finance and Accounting Department and Research and Statistics Department had structural change by the Governor's decree No. A-109 on April 2, and decree No. A-214 on June 22, respectively, with additional staffing.

The Bank has continued to strengthen its human resource policy aimed at capacity development, advancing leadership skills, improving employee retention rate through continuous training, and improving their work conditions and salaries along with resolving social issues. Within this framework, the organization's internal regulation has been amended to provide staff with additional pay based on the length of service. A total of more than 100 employees were involved in foreign and domestic business trips and training in 2020.

A regional meeting of banking sector executives was held in Zavkhan province in August 2020 to provide information and strengthen cooperation with local media, professional organizations, governmental and non-governmental organizations to increase the transparency on the activities of the Bank of Mongolia. Meetings and training for branch managers and specialists with a focus on improving internal operations were organized. The training expanded to include local government, commercial bank executives, and international banks and financial institutions.

The Bank is introducing the latest technology to create an environment for effective online collaboration and activities to store, share, use and analyze information electronically. Additionally, the Bank of Mongolia is working with the ERP system implementation project unit as part of the Payment System Reform Project under the Asian Development Bank.

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

4.2 FOREIGN RELATIONS

Highlights from the international cooperation of the Bank:

Highlights from the international cooperation of the Bank of Mongolia:

The Bank of Mongolia successfully 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 “Frequent supply shortages and monetary policy strategies in the context of external shocks” and published the results of the project.

The Bank of Mongolia actively cooperates with international organizations such as the Cooperation Council, the International Monetary Fund, the Asian Development Bank, and the Asia-Pacific Group on Money Laundering to improve Mongolia's anti-money laundering and anti-terrorist financing system and to develop cooperation channels and to elevate mutual evaluation results. As a result, Mongolia has been successfully removed from the Financial Action Task Force (FATF)’s list of strategically deficient countries in the fall of 2020.

To promote trade and economic cooperation between the two countries, the Bank of Mongolia and the People's Bank of China renewed the 15 billion RMB or 6 trillion MNT national currency swap agreement on July 31, 2020, and extended the swap agreement for another three years. Within the framework of extending the general swap agreement, the recommendations of the National Security Council of Mongolia have been fully implemented. The successful extension of the agreement has resolved the short-term external debt burden without compromising economic stability.

Mongolia has successfully implemented a three-year “Extended Fund Facility” program with the International Monetary Fund (IMF) that worked with the Government of Mongolia and the Bank of Mongolia to compensate for losses and balance of payment deficits caused by the COVID-19 pandemic situation. The Bank of Mongolia has also participated in the "Rapid Financing Instrument" assistance program of the Fund, which provided financial assistance of USD 99 million to Mongolia. Within the framework of the program, we worked closely with the resident representative office in Mongolia, organized meetings and provided necessary information and support.

The Bank of Mongolia has continued to cooperate with international institutions such as the Asian Development Bank, the International Monetary Fund, the World Bank, and the International Finance Corporation, all providing necessary technical assistance to the Bank of Mongolia online throughout the year.

In 2020, the Bank of Mongolia consistently participated in the annual and semi-annual board meetings of the Asian Development Bank, the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, Southeast Asian Central banks Research and Training Center, and exchanged views on current pressing issues.

At the 2020 International Economic Cooperation Forum organized by the Bank of Korea, the Bank of Mongolia presented in the online discussion on Eurasian Economic Cooperation: features of the Mongolian banking system, financial roles, challenges, and achievements of international cooperation. The forum was attended by private and public sector representatives and policy developers from all sectors, who exchanged experiences on regional economic cooperation and exchanged views on future directions.

The heads of the Bank of Mongolia have participated in the joint meeting of the Asia-Pacific Department of the International Monetary Fund and the Japan International Cooperation Agency (JICA) that involved the management, scientists and researchers of the central banks and ministries of the Asia/Pacific region. The conference included a panel discussion on “Achieving Sustainable Development Goals and Inclusive Growth”

where participants exchanged views on current issues and possibilities of strengthening future cooperation.

In the first quarter of 2020, the Bank of Mongolia finalized a “Cooperation Agreement” with the Central bank of the Russian Federation that has created the opportunity for the two central bank employees to attend training, exchange internships, opportunities for capacity building, exchange of experiences, and joint participation in regional events.

In order to expand the Bank of Mongolia's foreign relations and initiate new cooperation, the Bank of Mongolia and the Chartered Financial Analyst Institute successfully signed a “Grant Agreement”. From 2021, the Bank of Mongolia employees will be able to take the professional title exams at a discounted price, which will greatly contribute to human resource capacity building.

Throughout the year, we have worked closely with the Southeast Asian Central banks Research and Training Center, the Deutsche Bundesbank, the International Banking and Finance Institute of Banque de France, the Central bank of the Republic of Poland, the Study Center Gerzensee, the Institute of Financial Stability of the Bank for International Settlements, International Monetary Fund's Regional Training Institutes, the World Bank's Resource Advisory and Management Partnership Program and other central banks and financial institutions to improve and develop human resource capacity during the COVID-19 global pandemic through regular online trainings.

4.3 PUBLIC RELATIONS

The Bank of Mongolia took the following actions explaining policy decisions and their rationale to the public to sustain the central bank's transparency and accountability:

The Inflation Report

One of the key communication instruments of the Bank of Mongolia is the inflation report, and the central bank continued to present quarterly inflation reports in a portable document and spreadsheet format on its official website. The presentations of the quarterly reports were explained and disseminated to the public through video conferencing format while keeping social distancing. Furthermore, the Bank has been posting shortened and simplified versions of the inflation report on its social pages.

The Decisions of the Monetary Policy Committee

The Bank of Mongolia held seven press conferences on Monetary Policy Committee (MPC) decisions in March, April, June, August, September, November, and December. In 2020, the MPC reduced the policy rate by 5 percentage points, narrowed the interest rate corridor, reduced the togrog reserve requirement of the banks, allowed the maturity extension of consumer loans for borrowers experiencing difficulty, introduced long-term repo financing instruments, and reduced remuneration on banks' domestic currency reserve requirements where it would be deducted in proportion to the share of high-interest rate foreign currency deposits and interest-bearing current accounts in banks' total deposits. The Bank of Mongolia published the MPC statements and its rationale on its official website and social pages to inform economists, experts, investors, the public, and all stakeholders of the economy. In addition, regular interviews were conducted with the Bank of Mongolia officials and independent members of the MPC by newspapers, websites, television, and special broadcasts on Bloomberg and Eagle TV.

Press conference

The Bank of Mongolia held monthly press conferences on banking and financial sector statistics and current economic topics to engage with the public and improve its transparency. In doing so, it is customary to live broadcast on Facebook during press conferences on monetary policy decisions, monthly statistical information,

and other informative occasions. A total of 16 press conferences were held, including seven on the MPC decisions. The central bank's public relations aim to increase public confidence in the central bank, improve the effectiveness of the monetary policy, and have a positive impact on the effective management of market expectations

Research conferences and article contests among journalists

The Bank of Mongolia's research conference, which encourages students and researchers to conduct economic and financial research, was organized remotely through video conferencing due to COVID-19. Additionally, weekly external environment reports were published to improve access to research conducted by the Bank of Mongolia and report changes in the global economy and financial markets. The Bank of Mongolia has carried out all necessary measures regarding transitioning between levels of public preparedness for disaster protection, and the corresponding information has been published through its electronic channels. A new menu item "COVID-19: Implementation of activities" was launched on the Bank of Mongolia's website.

"The Bank of Mongolia's Information" newsletter

The Bank of Mongolia had released 12 editions of the "Bank of Mongolia's Information" newsletter and distributed 9600 copies within the central bank's departments, local branches, and to different stakeholders and institutions such as the office of the President, the Government, the Parliament, commercial banks, universities, and provincial officials.

The central bank has been running a "Simple economy" section explaining its policies and activities through preparing articles and delivering short videos and infographics. For instance, short videos on topics such as "Annual Highlights of the Bank of Mongolia", "How is a pension loan calculated?", "Debt-to-income ratio", "Security features of the new 5,000 togrog banknotes", "How is the exchange rate determined?" were published and broadcasted through different online channels.

Student-trainers of the Bank of Mongolia

The Bank of Mongolia, the National Police Agency, and the Mongolian Banking Association jointly launched a series of campaigns named "Careful Persuasion" and "Safe to Check" throughout 2020.

"Student Trainer" and "Bank of Mongolia Information Hour" training and meetings are held every month to introduce the Bank of Mongolia's policy and operations to students. However, the Government and the State special commission issued a decree to cancel all meetings and events in the country due to the pandemic. Hence, a total of 5 "Student Trainer" and "Bank of Mongolia Information Hour" training and meetings were organized in 2020. During these sessions, the Governor, the First Deputy Governor, the Deputy Governor gave a speech, which became a valuable opportunity for students to hear about the career development of the Bank of Mongolia's top management and policy decisions of the central bank.

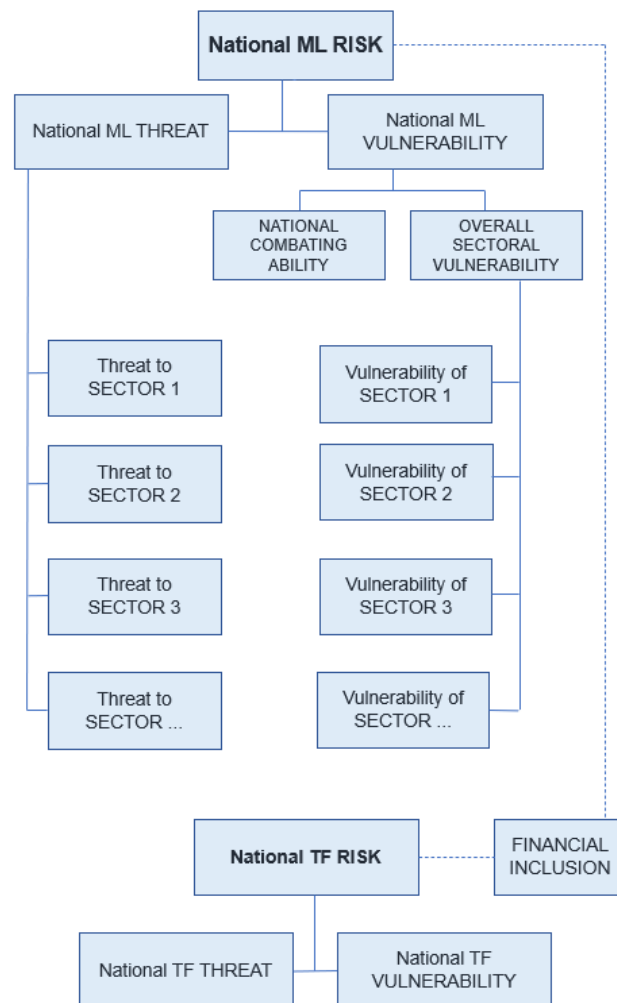
4.4 MEASURES OF ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM

The Financial Information Unit (FIU) has implemented the following necessary measures to strengthen Mongolia's anti-money laundering and combating financing of terrorism (AML/CFT) regime as stated in the Monetary Policy Guidelines for 2019.

I. National risk assessment

To improve the technical compliance of FATF Recommendation 1 and the effectiveness of the Immediate Outcome 1, the National Risk Assessment of Money Laundering and Terrorism Financing (ML/TF) has been conducted with the World Bank's technical assistance. In this regard, the Primary working group to conduct the National Risk Assessment was established by Decree No. 20 of the Minister of Finance on 31 January 2020. In addition, 11 sub-working groups to assess the ML/TF risks for each regulated sector, including banks, securities, insurance, non-bank financial institutions and designated non-financial business and professions (DNFBPs), were established by Decree No. 90 of the Minister of Finance on April 27, 2020. Thus, sub-working groups consisting of 128 members from a total of 52 public and private sector institutions have conducted the National Risk Assessment based on the World Bank methodology, as shown in the following scheme:

Figure 4.1. Scheme of ML/TF National Risk Assessment



Source: FIU, Bank of Mongolia

The FIU has organized weekly sub-working group meetings to discuss the progress updates and determine further necessary actions. As a result, all discussions for conducting the risk assessment of each regulated sector were successfully organized in 2020. Thus, based on the preliminary results and conclusions of each respective sectoral risk assessment prepared by the sub-working groups, the FIU in cooperation with the member institutions of the working group has organized a joint discussion session on September 23, 2020, as part of the preparation for the FATF’s onsite visit.

To finalize the National Risk Assessment report, the FIU and the responsible authorities successfully organized 5-day discussion sessions for each of the 11 sub-working groups on October 26-30, 2020 at the Ministry of Justice and Home Affairs and the Independent Authority Against Corruption. More than 250 representatives from relevant ministries, government authorities, judiciary and prosecutor’s offices, law enforcement agencies, research and educational institutions, professional associations and the private sector participated in these discussions and shared their opinions and recommendations for improving the 11 sub-working groups’ reports.

The sub-working groups reflected the critical comments and suggestions made during the final discussions in their reports and worked to finalize their draft reports of the National Risk Assessment based on the World Bank’s recommendations and suggestions.

The importance of the National Risk Assessment is to assess and identify ML/TF risks in Mongolia. As a result of the measures taken to mitigate the identified risks by the supervisory authorities and their application of risk-based approaches, the technical compliance of the FATF 40 Recommendations and effectiveness of the Immediate Outcomes can be improved. The medium-term AML/CFT National Strategy will be developed and approved based on results of the National Risk Assessment. The National Strategy and its action plan will address the detailed measures to mitigate ML/TF risks and to upgrade the technical compliance and effectiveness of the FATF standards. The Bank of Mongolia, the FIU, the Ministry of Justice and Home Affairs, the Ministry of Finance, the Financial Regulatory Commission, law enforcement agencies and other responsible institutions will work together to implement this Action plan.

Figure 4.2. Importance of National Risk Assessment



Source: FIU, Bank of Mongolia

II. Domestic and international cooperation

The AML/CFT regime is a comprehensive and nationwide scheme, so the cooperation of relevant institutions has a vital role. The FIU is responsible for AML/CFT public-public partnership as well as for domestic and international cooperation. Currently, the AML/CFT National Committee and Cooperation Council, consisting of over 20 government authorities, are working beside the FIU to ensure effective operations of Mongolia's AML/CFT regime. The National Committee and the Cooperation Council include representatives from the Bank of Mongolia, the Financial Regulatory Commission, the Ministry of Justice and Home Affairs, the Ministry of Finance, the Ministry of Foreign Affairs, law enforcement agencies and other relevant government authorities.

The FIU organized a total of two National Committee meetings and five Cooperation Council meetings in 2020 and discussed and resolved important issues in strengthening the AML/CFT regime. Topics such as taking measures to remove Mongolia from the FATF's list of jurisdictions with strategic AML/CFT deficiencies, improving ratings of technical compliance with the FATF Recommendations, progress updates in conducting the National Risk Assessment, creating the legal and regulatory environment for virtual asset service providers, enhancing the information exchange among member institutions, organizing outreach activities were discussed at the meetings. The FIU has communicated decisions of the meetings to the member institutions and reported their progress on implementation.

In addition, the FIU has regularly organized meetings with relevant officials to increase the effectiveness of coordination and cooperation of local authorities. For example, meetings and discussions were organized for preparing and submitting Mongolia's Progress Reports, Follow-up Reports, other reports, research, and questionnaires.

The FIU has actively cooperated with the organizations such as the FATF, the Asia/Pacific Group on Money Laundering, the Eurasian Group on Combating Money Laundering and Financing of Terrorism, and the Egmont Group to implement the FATF 40 Recommendations. In addition, the World Bank, the Asian Development Bank, and the U.S. Department of Treasury have provided technical assistance to the FIU and jointly implemented relevant projects. These organizations have provided support and assistance for Mongolia to be removed from the FATF's list of jurisdictions with strategic AML/CFT deficiencies.

III. Supervision

According to the amendments made to the AML/CFT Law on October 10, 2019, DNFBPs will be monitored by the Financial Regulatory Commission and professional associations such as the Mongolian Institute of Certified Public Accountants, the Mongolian Bar Association, and the Mongolian Chamber of Notaries. In this regard, the FIU conducted AML/CFT supervisions in cooperation with professional associations to notaries, lawyers, accountants, and other financial management counselors in 2020.

The FIU has collaborated and provided the necessary support for the professional associations in assessing the risks of DNFBPs using off-site examination questionnaires and risk assessment tools, conducting on-site examinations to those DNFBPs identified as high-risk, and updating the questionnaires and tools based on the examination results. As part of outreach activities, the FIU has developed guidance on implementing the AML/CFT risk-based approaches for notaries, lawyers, accountants, and other financial management counselors and guidance and recommendations on completing and submitting the reports to the FIU for all DNFBPs as well as organized training and meetings for DNFBPs to fulfill their obligations stated in the AML/CFT Law. The following table shows supervision statistics and actions taken against all the reporting entities (Table 4.1).

Table 4.1. AML/CFT supervision statistics

Items	2017	2018	2019	2020
Number of on-site examinations on banks	2	14	24	19
Number of on-site examinations on non-bank financial institutions	139	1025	269	146
Number of administrative action notes issued to banks and other reporting entities	29	4	-	1
Number of rectification orders issued to banks and other reporting entities	367	272	245	444

Source: FIU, Bank of Mongolia

IV. Outreach activities

The FIU has developed and published the following AML/CFT related awareness-raising documents for reporting entities in 2020.

- Prepared the Strategic Analysis Report 2019 for banks;
- Issued Guidelines on implementing risk-based approaches to combatting ML/TF for lawyers, notaries, accountants, and other financial management counselors;
- Developed Guidance and Recommendations on completing and submitting reports to the FIU for DNFBPs;
- Developed Guidance on preventing ML/TF for the public;
- Prepared Guideline on red flags for ML/TF in the notary sector and shared it with the Mongolian Chamber of Notaries;
- Developed Guidance on identifying politically exposed persons for reporting entities;
- Developed Guidance on identifying beneficial owners and sent to the General Authority for State Registration;
- Launched the unified information portal with all the information on combating ML/TF, www.amlcft.mn;
- Translated the FATF Recommendations and Methodologies into Mongolian

These reports and guidelines have been posted on the FIU's website: fiu.mongolbank.mn.

V. Receipt of Information

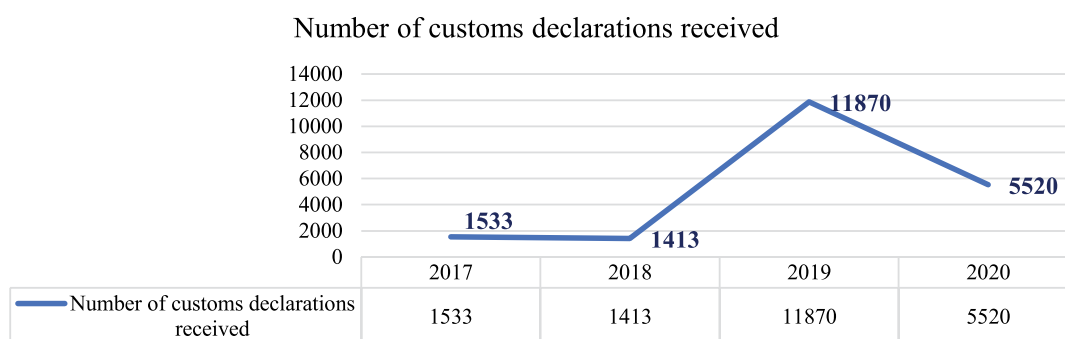
The FIU receives Cash transaction reports (CTR) and Foreign settlement transaction reports (FSTR) of MNT 20 million or more as well as Suspicious transaction reports (STR) from the reporting entities specified in Article 4 of the AML/CFT Law. Additionally, the FIU receives Customs declaration reports of MNT 15 million or more in cash or its equivalent in foreign currency, financial instruments and electronic money according to Article 15 of the AML/CFT Law (Table 4.2).

Table 4.2. Number of reports received by the FIU

Name of report	2017	2018	2019	2020
Cash transaction	572,181	669,910	562,926	402,496
Suspicious transaction	203	1,596	2,385	3,014
Foreign settlement transaction	98,549	126,944	131,715	143,191

Source: FIU, Bank of Mongolia

In 2020, the number of STRs received increased by 20 percent, and the number of FSTRs increased by 8 percent compared to 2019, respectively. The number of STRs has been increasing for the last four years due to the FIU's effort of issuing guidelines for filling out and identifying suspicious transactions and holding regular meetings with reporting entities to explain their obligations to detect and report suspicious transactions. It is also because the reporting entities are improving their identification and detection of suspicious transactions every year. However, due to the COVID-19 global pandemic, the closure of the border caused a reduction in traveling, and the number of customs declarations has halved compared to the previous year.

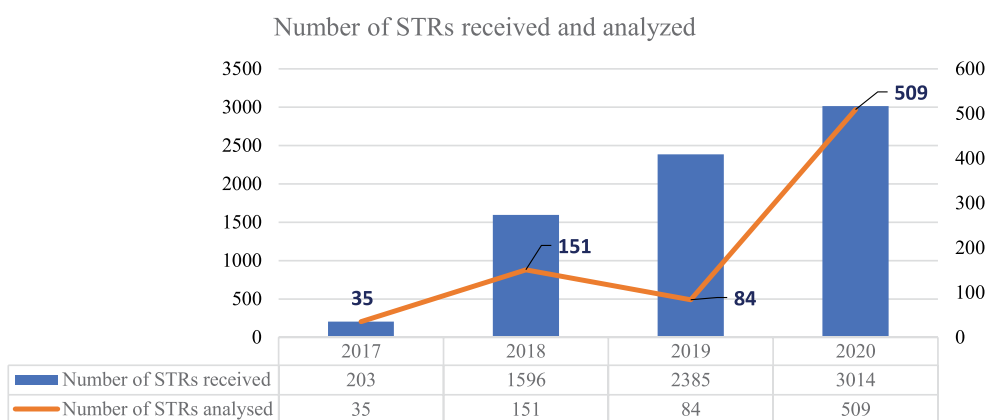
Figure 4.3. Number of customs declarations received

Source: FIU, Bank of Mongolia

VI. Analysis of Information

According to Article 18.1.1 of the AML/CFT Law, the FIU has the main function of receiving, collecting, and analyzing information reported from reporting entities as well as information in databases of relevant domestic and foreign institutions with similar functions. In this context, the FIU analyzed the following STRs in 2020. (Figure 4.4).

Figure 4.4. Number of STRs received and analysed



Source: FIU, Bank of Mongolia

In 2020, the FIU paid special attention to the analysis of STRs. Enhancing the capacities of analysts and simplifying time-consuming technical tasks has reduced the time required for analyzing STRs.

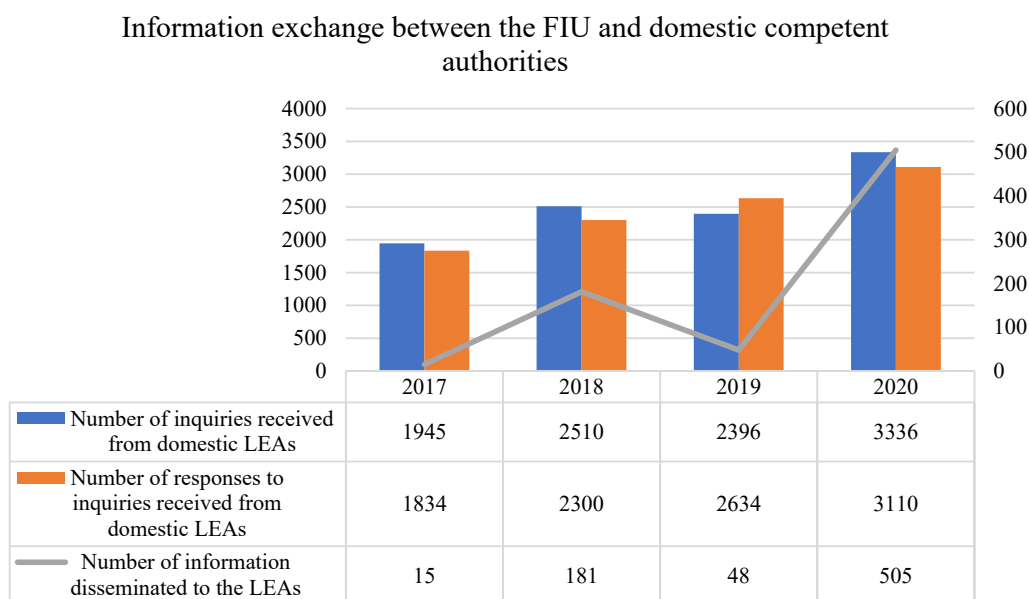
As part of its main functions, the FIU conducts strategic analysis in accordance with the international standards and domestic laws and regulations. The FIU has issued Strategic Analysis Report 2019 by collecting the relevant information from law enforcement agencies, prosecutors’ offices, and the judiciary during the reporting period, and submitted it to relevant organizations. Additionally, the FIU has conducted research on documents and reports on ML/TF issued by international organizations and published a Typology Report on case examples of suspicious transactions that may occur in Mongolia.

VII. Exchange of Information

VII.a Exchange of Information and Cooperation with Domestic Organizations

In accordance with Article 18.6 of the AML/CFT Law, the FIU cooperates and collaborates with competent domestic authorities by exchanging information and providing support and assistance with the investigation and prosecution of crimes within the framework of preventing and combating money laundering, financing of terrorism, and proliferation of weapons of mass destruction. In this context, information was exchanged as follows (Figure 4.5).

Figure 4.5. Information exchange between the FIU and domestic competent authorities



Source: FIU, Bank of Mongolia

For the purpose of obtaining information, statistics on the number of inquiries sent to the FIU from domestic law enforcement agencies and the number of responses to inquiries received are prepared based on the number of persons referred to the inquiries and the difference between the number of inquiries received and the number of responses to inquiries in 2020 was completed in the first quarter of 2021.

VII.b Exchange of Information with Foreign Counterparts

Per the FATF Recommendation 29 and the AML/CFT Law, the FIU-Mongolia exchanges information with foreign FIUs, who are Egmont Group members, under the Principles for Information Exchange between Financial Intelligence Units of the Egmont Group as well as foreign counterparts whom FIU-Mongolia has signed Memorandum of Cooperation. The following table shows the FIU-Mongolia's information exchange over the recent years. (Table 4.3).

Table 4.3. Information exchange of FIU-Mongolia with foreign counterparts

<i>Items /by number of persons/</i>	2017	2018	2019	2020
<i>Number of requests sent by the FIU-Mongolia to foreign FIUs and organizations with similar functions</i>	393	231	238	353
<i>Number of responses to requests sent to foreign FIUs and organizations with similar functions</i>	316	193	202	268
<i>Number of requests received by the FIU-Mongolia from foreign FIUs and similar organizations</i>	167	126	133	123
<i>Number of responses to requests received by the FIU from organizations with similar functions</i>	151	126	144	112

Source: FIU, Bank of Mongolia

The difference between the number of requests received from foreign FIUs and organizations with similar functions and the number of responses sent to the foreign FIUs from the FIU-Mongolia has the same reason as referred in the Section VII.a.

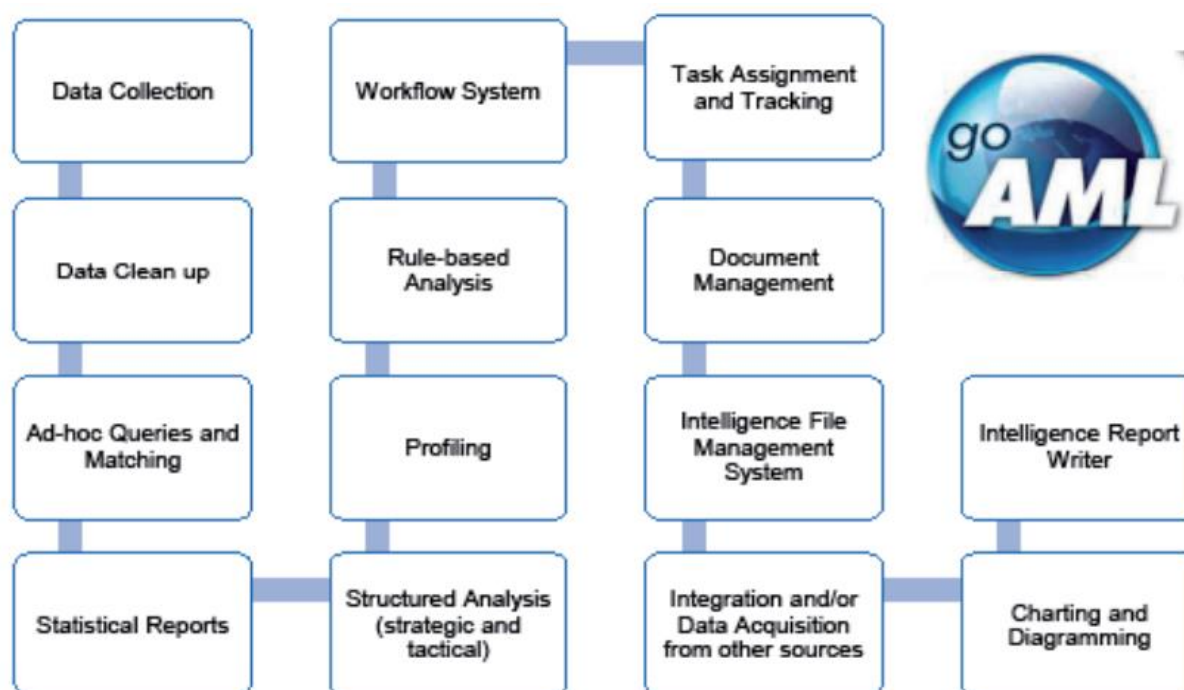
VIII. Information system and software of the FIU

The FIU started introducing the goAML program into its operations in February 2020 and has adapted the data reception scheme and values of the program to the Mongolian legal environment. The corresponding data types, the scheme introduction, instructions and other supporting documents were developed and shared with banks.

In April 2020, the equipment, servers, and software licenses required to introduce the goAML program were purchased. In July and August 2020, the Information Technology Department and the FIU have collaborated to install the servers.

Following the completion of this work, in August 2020, the FIU contacted the United Nations Office on Drugs and Crime (UNODC) virtually to test the installed system and information technology structure. IT specialists have corrected each error, and confirmed that the goAML program was ready for testing. In September and October 2020, the FIU tested data exchange and other internal activities on the goAML web and client applications, and corrected issues and errors with the assistance of the UNODC.

Figure 4.6. goAML application process



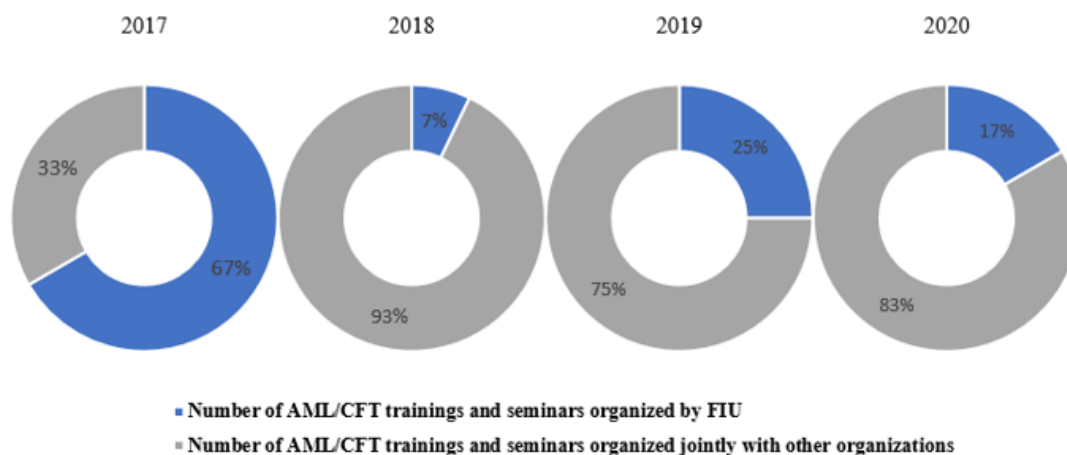
Source: FIU, Bank of Mongolia

In November 2020, the goAML web application was tested for CTRs, FSTRs and STRs. Accordingly, the goAML data reception scheme has been finalized and shared with the banks in December 2020. The FIU is working to fully implement the program in 2021.

IX. Strengthening capacity and improving efficiency of resources

The FIU has been continuing to work with the U.S. Department of the Treasury's Technical Assistance Program to build the capacity of analysts and improve their knowledge and education. The FIU staff regularly participated in professional trainings and seminars on AML/CFT. In addition, the FIU has organized outreach activities on combating and preventing ML/TF for relevant institutions (Figure 4.7).

Figure 4.7. Number of AML/CFT trainings, seminars and attendees organized by the FIU and organized jointly with other organisations



Items	2017	2018	2019	2020
Number of AML/CFT trainings and seminars organized by FIU	8	1	7	4
Number of attendees of AML/CFT trainings and seminars organized by FIU	205	40	444	136
Number of AML/CFT trainings and seminars organized jointly with other organizations	4	13	21	20
Number of attendees of AML/CFT trainings and seminars organized jointly with other organizations	205	543	1081	886

Source: FIU, Bank of Mongolia

The training and seminars on AML/CFT include:

- Introduction on suspicious transactions for compliance officers of banks during the meeting of the Research and analysis working group at the Cooperation Council;
- Training on “How to report and identify STRs?” by the FIU to the employees of non-bank financial institutions;
- Advanced training for the supervisors of DNFBPs organized by the FIU in cooperation with the U.S. Department of the Treasury;
- Training on “Reporting obligations” for accounting and other financial management counselors;
- Training on “Reporting STRs” for the certified tax consultants;
- Training on the “Participation of border and customs authorities in the AML/CFT scheme” for the border and customs officials;
- Training for the staff of the General Authority for State Registration on issues related to registration of beneficial ownership of legal entities;
- Training on preparing for the FATF’s on-site visit was provided to relevant organizations.

Furthermore, the training and seminars attended by FIU staff aimed at strengthening their capacity and improving their knowledge and skills are:

- Training by the consultants of World Bank and Asian Development Bank on “National Risk Assessment for Money Laundering and Terrorist Financing”;
- Training on “Tax inspection” by the General Department of Taxation;

- Seminar on security and confidentiality under the technical assistance from the U.S. Department of the Treasury;
- Workshop on Action Plan 2020-2021 by the Information Exchange on ML/TF Working Group of the Egmont Group;
- Webinar on “Introduction to VAs and VASPs: terminology, AML/CFT regime vulnerabilities stemming from VAs, the revised FATF Standards and their impact on the FIUs’ interactions with the VASPs sector”, “COVID-19 and the Changing Money Laundering and Terrorist Financing Risk Landscape”, and “Money laundering and the Illegal wildlife trade” by the Egmont Group;
- Training on “Application of the Law on Infringement” by the General Prosecutor's Office;
- Training on “Crypto Assets and International Legal Environment” and “Recommendations and comments on the Draft Law on Virtual asset service providers” by the World Bank;
- Training on goAML program from the UNODC;
- Workshops on “Know your customer and Customer due diligence” and “Trade-Based Money Laundering” by the International Compliance Association and the European Bank for Reconstruction and Development;
- Trainings and seminars on the Basel Committee’s e-learning platform.

4.5 INTERNAL AUDIT

The Internal Audit Department has performed its main function to support the Bank in achieving its goals and objectives by reducing operational risks, conducting on-site audits and remote surveillance, making recommendations on improving risk management and internal control, and monitoring its implementation.

The Internal Audit Department carried out 16 comprehensive on-site audits and 9 partial audits as per the annual audit plan approved by the Governor of the Bank of Mongolia in 2020. The audit findings and recommendations were presented at the meetings of the Board of Directors, further actions and recommendations were issued, and its implementations were closely examined.

The Department coordinated the assurance process of the Bank of Mongolia’s financial statements undertaken by an external auditor and monitored the implementation of the recommendations given by the external auditor. Additionally, the Supervisory Board's resolutions' implementation is monitored and reported to the management.

Consulting services for introducing the risk-based internal audit methodology and external quality assessment were provided by an international consultant under the World Bank's Strengthening Fiscal and Financial Stability project in Mongolia. The Medium-Term Plan (2020-2023) to ensure the implementation of the Quality Assurance and Improvement Program has been approved based on the assessment and activities reflected in the plan are being implemented.

Within the plan, auditors were given training on tools and techniques of audit managers, consulting services, risk assessment and other related subjects to strengthen the knowledge and capability of auditors necessary for introducing risk-based audit methodology.

Furthermore, the international terms of internal auditing and risk management were translated and the manual for risk-based internal audit planning and survey questionnaire was drafted and sent to the directors of departments before finalizing the audit scope and purpose.

4.6 RISK MANAGEMENT

Regarding the foreign exchange reserve management, the Unit set strategic asset allocations, benchmarks, and limits in the long-term and the mid-term, monitored performance of the strategic asset allocation and compliance of the limits, and executed reporting. Within risk management related to money market operations, the Unit established a list of eligible assets that can be pledged as collateral for central bank finances, developed methodologies utilized for collateral evaluation, determining discount rates, and monitored compliance. Additionally, potential operational risks of the Bank of Mongolia are identified, assessed, and controlled as well as maintained to the lowest level.

Financial risk management

Credit risk

As part of credit risk management, the deposit limit of the official foreign exchange reserves has been set by investment type, by customer banks and financial institutions, by credit rating, and by country. The reserves were placed at the central banks of developed countries, government-guaranteed institutions, and international financial institutions to avoid credit risk that may arise from the uncertainty from the global economy and financial markets due to the COVID-19 pandemic. In addition, in order to limit credit risk, the maximum amount of deposits to be placed in foreign banks and financial institutions was determined by the portfolio optimization method. The strategic investment structure was approved, and its implementation was monitored.

The credit risk models and practices that set limits on respective banks and financial institutions used by other central banks and international financial institutions and a methodology for evaluating and analyzing foreign banks and financial institutions were introduced in internal operations.

The Bank of Mongolia has made projections on the expected credit loss for financial assets per International Financial Reporting Standard 9 and established a provision against it. The Bank of Mongolia took comprehensive policy measures to reduce the negative impact of the COVID-19 pandemic on the economy. Within the policy measures, we increased the types of collateral allowed by the central bank, set the risk discount rate for those assets, and developed a methodology for estimating the value of collaterals based on research and experience of other central banks. In addition, the daily trading limit for the participants in the interbank foreign exchange trading system was calculated, and the prime dealer of the foreign exchange trading system was selected quarterly and its implementation was monitored.

Market risk

Within the framework of foreign exchange reserve management, the types and amounts of foreign exchange required to minimize the exchange rate risk are determined based on the togrog exchange rate policy, the foreign loan payments by the government, the import structure, foreign exchange outflows by domestic banks and the structure of the domestic foreign exchange market. The implementation of the foreign exchange reserve management was monitored. At the same time, to minimize the risk of depreciation of investment instruments due to changes in market interest rates, the risk of interest rate fluctuations was managed by determining the duration and the optimal amount of deviations for each reserve tranche.

Exchange rates and securities interest rate curves have changed significantly due to the adverse effects of the COVID-19 pandemic on the global economy so there was a need for more accurate market risk estimates. The Bank of Mongolia made successful estimates of market risk through using the latest financial software and implemented the upgrade into our daily use.

In addition, as part of the measures to reduce the risk of insolvency of internal assets, the financial assets were valued at fair value following the Accounting Policy Document of the Bank of Mongolia, and potential market risks were reflected in the balance sheet. At the same time, to protect against exchange rate risk, increase

foreign exchange flows, and reduce interest rates and foreign currency lending, long-term swap agreements are made with banks, and its corresponding revaluation of the agreements was done weekly and risk measures are reflected in the balance sheet.

Liquidity risk

Within the framework of foreign exchange reserve management, the portfolio is divided into short-term and investment tranches in order to ensure liquidity. A short-term portfolio has been placed with international organizations and central banks amid growing economic and financial market uncertainty caused by the COVID-19 pandemic. In order to determine the adequacy of the reserves, the optimal short-term liquidity portfolio was determined based on macro indicators such as short-term and long-term external liabilities, export and import projections, following the methodologies commonly used by the IMF and other central banks. We also managed and placed the reserves in highly liquid instruments such as current accounts, short-term deposits, and short-term government securities to ensure the highest liquidity.

Monitoring and reporting of foreign exchange reserves management

The market valuation, risk, and return estimates of the investment instruments were performed daily, the established investment structure and limit performance were calculated and reported to the management. Additionally, information on financial indicators and credit ratings of foreign banks and financial institutions were updated quarterly, credit risk analysis was conducted, and the result was presented to the management regularly.

Operational Risk Management

Within its operational risk management framework, the Risk Management Unit has successfully utilized risk identification and assessment methods and risk management instruments following best-case practices and standards of other central banks.

The Risk Management Unit upgraded its regulatory documents, adopting the latest risk management approaches and techniques to improve operational risk management. Specifically, the Operational Risk Policy was enacted to establish the general approach in scopes and objectives of managing operational risks at the Bank of Mongolia. Furthermore, the existing Operational Risk Management regulation that has detailed guidelines of the Bank of Mongolia Operational Risk Management was amended to improve the framework and introduce new operational risk management instruments. In light of the COVID-19 pandemic, the Bank of Mongolia's Business Continuity Management capabilities were challenged, hence the Risk Management Unit developed and successfully launched the "Business Continuity Plan in response to Influenza Pandemic" to manage its business continuity and pandemic responses.

Risk Control and Self-Assessment, a widely used assessment tool in operational risk management, was conducted by all employees for the fifth year. Based on its results, risk control and mitigation measures were taken. In addition, the list of Key Risk Indicators (KRIs) was updated to increase their accuracy, and warning capacities. The performance of KRIs is collected from all units, monitored, and reported to the management regularly. The KRIs are important for realistically measuring operational risks, identifying main risk factors, and establishing risk mitigation measures and recommendations. The Risk Management Unit performed a business process mapping and risk assessment on gold and cash-related operations of the Bank of Mongolia, and risk mitigation measures were taken based on the results.

A web-based software program for "Risk incident database" and "Key risk indicators" was launched in 2020 to equip accessible risk incident reporting and reporting of the performance of the KRIs. Besides facilitating reporting and information flow between units, the program enables the creation of incidents and the KRIs database in the Bank's information system.

Appointed operational risk management officers at the units are the main gateways for information sharing and establishing a risk management culture in the Bank of Mongolia that promotes risk management knowledge and practice and supports cooperation among units. The Risk Management Unit continued to organize roundtable discussions with the risk management officers and regularly arranged specialized training and workshops.

4.7. DEVELOPMENT IN CASH IN CIRCULATION

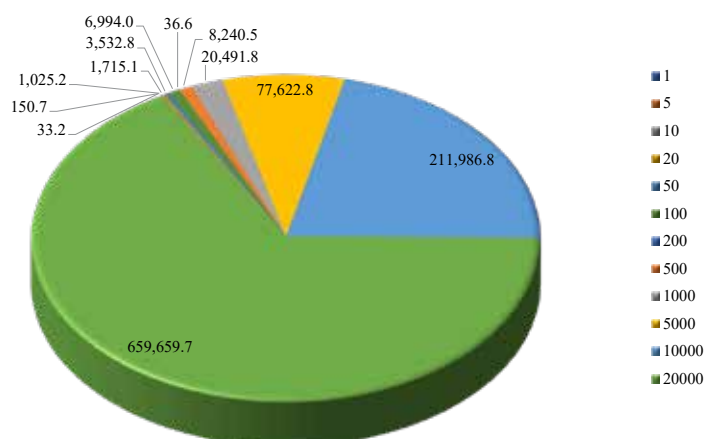
Cash in circulation increased both in value and volume in 2020 compared to the previous year. At the end of 2020, the total value of cash in circulation reached 991.5 billion togrog, representing an increase of 10.5 percent. The volume of cash in circulation reached 499.07 million pieces, representing an increase of 5.7 percent.

Table 4.4. Changes in cash in circulation

№	Denomination	Volume (million pieces)			Value (million togrog)		
		2019	2020	Growth rate	2019	2020	Growth rate
1	1	32.80	33.20	1.2%	32.8	33.2	1.2%
2	5	29.75	30.13	1.3%	148.7	150.7	1.3%
3	10	97.01	102.52	5.7%	970.1	1,025.2	5.7%
4	20	81.12	85.76	5.7%	1,622.4	1,715.1	5.7%
5	50	66.01	70.66	7.0%	3,300.3	3,532.8	7.0%
6	100	65.96	69.94	6.0%	6,596.3	6,994.0	6.0%
7	200	0.18	0.18	-0.7%	36.9	36.6	-0.7%
8	500	16.62	16.48	-0.9%	8,312.4	8,240.5	-0.9%
9	1000	20.29	20.49	1.0%	20,290.7	20,491.8	1.0%
10	5000	13.51	15.52	14.9%	67,544.7	77,622.8	14.9%
11	10000	18.54	21.20	14.3%	185,443.6	211,986.8	14.3%
12	20000	30.15	32.98	9.4%	603,080.9	659,659.7	9.4%
	Total	471.96	499.07	5.7%	897,379.9	991,489.2	10.5%

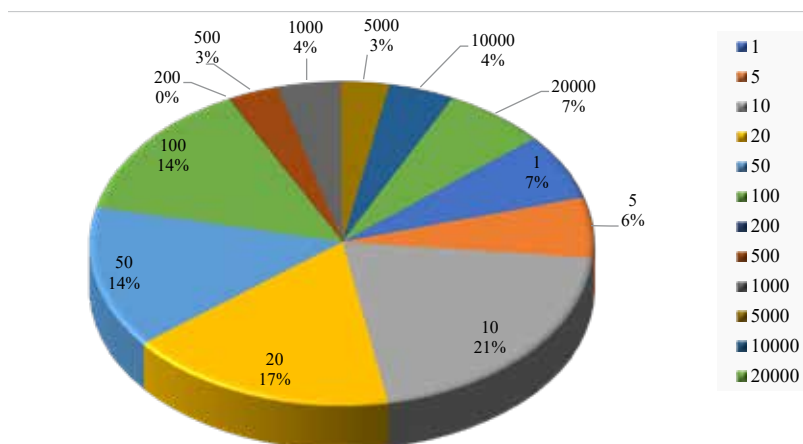
The largest percentage increase was observed in the three highest denomination banknotes over 5,000 togrog, whereas the only decrease was observed in the denomination of 500 togrog.

Figure 4.8. Denominational structure of cash in circulation by value



In terms of value 10,000 togrog and 20,000 togrog banknotes accounted for 87.9 percent of the total value, while the remaining 12.1 percent accounted for the other denominations.

Figure 4.9. Denominational structure of cash in circulation by volume



The total pieces of 10, 20, 50, and 100 togrog denominations weighed 66 percent of the total volume while the remaining eight denominations weighed 34 percent of the total volume.

Reprinting of banknotes

The Bank of Mongolia upgraded the public security features for banknotes to combat counterfeiting. On January 31, 2020, the new 50 and 20,000 togrog banknotes with new security features were put into circulation, and the 20,000 togrog banknotes issued in 2006 were withdrawn from circulation.

The 100, 500, and 1,000 togrog banknotes with upgraded security features, such as a color-shifting feature, and a tactile feature for visually impaired individuals, were reprinted in 2020 and ready to be put into circulation in 2021.

4.8 INFORMATION TECHNOLOGY

The Information Technology Department ensured the safe, reliable, and uninterrupted operation of the interbank payment system, the interbank foreign exchange trading platform, the credit information bureau system, and internal electronic information systems.

In addition to improving and refining existing systems, new technical and technological research has been conducted and implemented. Such as:

- Developed and integrated short-term interbank currency swap and forward trading software into the interbank electronic trading platform.
- Developed and launched the new statistical information website.
- Developed a new service to check and confirm the information in the credit registry system against the Khur system to prevent errors.
- Developed a new human resource module in the internal ERP system.
- Introduced VPN technology for employees to work from home and remotely connect to the internal network.
- Introduced virtual container “Docker” technology to improve the continuous and reliable operation of the internal systems.
- Upgraded the Bank of Mongolia’s SWIFT international payment system, and introduced a two-tier customer identification mechanism.
- Introduced the GoAML anti-money laundering system.
- Worked with a contractor to consolidate data and create a test environment for the introduction of a new Core banking system at the Bank of Mongolia.

In addition, measures have been taken to ensure the continuity of information technology, improve information security, and prevent, protect, and respond to cyber-attacks.

4.9 SUMMARY OF THE LEGAL ACTS AND DECREES ISSUED BY THE BANK OF MONGOLIA IN 2020

No	Legal acts and decisions	Date	Number	Meaning
1	Make an amendment to the long-term swap agreement regulation	1/24/2020	A-22	Replace "Current Central Bank Repo Rate" as "Weighted average interest rate on 28 weeks of central bank bills most recently announced to the public." on the “Long-term swap agreement” regulation approved by the Governor of the Bank of Mongolia's order A-341 dated 14.12.2016 reads “Current Central Bank Repo Rate”
2	Issuance of new MNT 20,000 and MNT 50 banknotes and withdrawal of MNT 20,000 banknotes issued in 2006	1/31/2020	A-25	20,000 MNT and 50 MNT banknotes of 2019 will be put into circulation from 2020.2.3. Withdraw 20,000 MNT banknotes of 2006 from 2020.03.01.

3	Amendments to payment card regulation	2/19/2020	A-41	In accordance with Article 10.5 of the Payment Card Regulation approved by the Governor of the Bank of Mongolia on April 5, 2019, the clearinghouse shall suspend the participant's right to use the payment card system if the Bidder fails to make the payment specified in Article 10.3 of this Regulation by 5:10 pm on the next business day. . Article 10.6 adds provisions to suspend and restore the right to use the Payment Card system for the outgoing payment specified in Article 10.5 of this regulation.
4	Revision of credit database regulations	3/3/2020	A-57	The Bank of Mongolia approved an agreement to compile a credit database, ensure the reliability and continuity of the credit database, enter into an agreement to use its own credit database, and coordinate oversight, and provide and receive information to the Credit Information Database.
5	Setting the central bank's policy interest rate	3/11/2020	A-61	The decision of the Central Bank to reduce the policy rate by 1 percentage point to 10 percent per annum will come into force on March 12, 2020.
6	Amendments to the Bank of Mongolia's collateral loan procedure for banks	3/20/2020	A-97	To change the word "from 90 days" specified in 2.2 of the Order A-174 of the Governor of the Bank of Mongolia to "from June"
7	Determine the required reserve ratio	3/11/2020	A-63	Set the bank's required reserve ratio in MNT at 8.5 percent and the reserve requirement in foreign currency at 15.0 percent
8	Introduction of unified account numbering	3/13/2020	A-66	Approve the unified numbering instructions and follow the instructions from 20.01.01.01, and convert the account numbering according to these instructions until 2022.01.01-2024.10.31.
9	Approval of the list of collateral and securities to be purchased by the central bank for loans and financing	3/23/2020	A-98	Renew the list of collateral and securities to be purchased by the central bank to provide loans and financing to the bank as attached
10	Amendments to the Government subsidized mortgage programm	4/8/2020	A-116	Add a provision to the Government subsidized mortgage programm approved by the Governor of the Bank of Mongolia Order A-295
11	About some measures to be taken regarding Government subsidized mortgage programm	4/8/2020	A-117	Cases of changing the terms of a loan agreement due to unforeseen force majeure, such as the Covid-19 epidemic.
12	Amendments to the "Government subsidized mortgage programm" regulation	5/20/2020	A-173	Article 2.2 of the Regulation has been amended so that the borrower can take a mortgage loan at a reduced interest rate as collateral for an apartment owned by a co-borrower and pay the down payment for a new apartment.
13	Temporary changes to the order	4/13/2020	A-122	In the case of consumer loans that have defaulted due to difficult economic conditions from February 2020, the outstanding period may be extended once for up to 12 months without increasing the outstanding amount.
14	Amendments to the regulation on determining the price of gold and white silver to be purchased by the Bank of Mongolia	4/21/2020	A-129	Article 2.3 of the "Regulation on Determining the Price of Gold and White Money to be Purchased by the BOM" approved by the Presidential Decree No. A-138 of 2018 states that It may be changed from time to time. Reasonable proposals shall be developed by the MOU and discussed at the meeting of the Investment Committee. "
15	About using the new logo and hologram of ₮ card	5/5/2020	A-143	New logo of ₮ card of national payment and instructions for its placement in accordance with Annex 1 to this order, new hologram of ₮ card and instructions for its placement in accordance with Annex 2 to this order, new logo and instructions for its placement in accordance with Annex 3 Approve

16	Amendments to the Mortgage Financing Regulation	5/20/2020	A-173	Article 2.2 of the “Regulation on mortgage financing” approved by the Governor of the Bank of Mongolia Order A-295 to change the “Change the loan applicant to take a mortgage loan at a discounted interest rate on a mortgage owned by him or her or a co-borrower, and to pay a down payment on a new apartment to be purchased on credit.
17	Approval of the general plan for the implementation of the Alt-2 national program	5/20/2020	A-177	The plan to intensify the Alt-2 national program is approved in Annex 1, the temporary procedure for concessional financing to intensify the program is approved in Annex 2, and the requirements for mining, concentrating, protecting, storing, transporting and selling gold-bearing ore and sand are approved in Annex 3.
18	Approval of “Temporary loan procedure to be issued by the Bank of Mongolia to banks”	6/3/2020	A-192	Temporary loan procedure to be issued to banks until December 31, 2020 in order to improve the financial condition of the bank and ensure the stability of the sector, taking into account the social and economic situation during the coronavirus epidemic.
19	Coin price re-establishment	6/9/2020	A-194	The selling price of 3 ounces of Khot Mandal gilded silver coin was set at 1,500,000 MNT and the selling price of 1 ounce of Majestic eagle silver coin was set at 350,000 MNT.
20	Long-term swap agreements about making changes	6/9/2020	A-196	The first appendix of the “Regulation on long-term swap agreement” approved by the Order A-341 of the Governor of the Bank of Mongolia dated December 14, 2016 has been amended.
21	Coin price re-establishment	6/12/2020	A-200	Appendix on setting the price of Ingot fold, Gold Coin, Silver Coin, and Copper Coin.
22	Coin price re-establishment	6/16/2020	A-203	Set the selling price of 1 kg of Nokhoi zeekh silver coin to be set at 6,000,000 MNT.
23	“Regulation of the Central bank securities trading” shall be renewed and approved in the appendix	6/17/2020	A-205	In order to implement the monetary policy of the Bank of Mongolia, within the framework of open market activities, the Bank of Mongolia to regulate the issuance and trading of securities.
24	About revoking the regulation	6/17/2020	A-207	The Bank of Mongolia shall repeal the procedure for conducting criminal and civil cases related to the activities of banks and bank employees.
25	About setting the price of silver bullion and pellets	7/1/2020	A-224	The selling price of 1 ounce of silver oblong is set at 150,000 MNT, the selling price of 1 kg of silver oblong is set at 2,000,000 MNT, and the selling price of 4 kg of silver pill is set at 8,000,000 MNT.
26	Re-approval of the “BOM foreign exchange spot trading procedure”	7/2/2020	A-227	To define, define and monitor the principles to be followed by the Bank of Mongolia in its activities in the foreign exchange market and the rights and obligations of stakeholders.
27	Approval of the “Procedure for storage and protection of credit information of credit information service providers”	7/3/2020	A-231	To regulate the storage, protection and confidentiality of the credit information database of the credit information service provider, security standards related to conducting this activity, control and management system and protection of the borrower's rights related to credit information.
28	Approval of Payment card regulations	7/6/2020	A-233	To regulate payment card operations in the territory of Mongolia, to issue and revoke permits, to determine the rights, duties and responsibilities of participants, and to monitor their implementation.
29	About coin pricing	7/24/2020	A-255	The selling price of 1 ounce of silver coin per year for Mouse is 280,000 MNT and the selling price of 50 gram copper coin for Majestic eagle is 180,000 MNT.

30	Amendments to the regulations	8/24/2020	A-340	Add Article 4.3 to the procedure for determining, calculating and monitoring the bank's required reserves and monitor it.
31	About setting the price of coins and pellets	8/27/2020	A-343	The selling price of 1 ounce of silver coin by Mahatma Gandhi is set at 350,000 MNT, the selling price of 1 ounce of Ilbenkh silver coin is set at 300,000 MNT, and the selling price of 4 kg of pellets is set at 12,000,000 MNT.
32	Setting the central bank's policy interest rate	9/14/2020	A-367	Reduce the central bank policy rate by 1 percentage point and set it at 8 percent per annum
33	Amendments to the long-term swap agreement procedure	9/21/2020	A-379	Appendix to the Order A-341 of the Governor of the Bank of Mongolia dated 14.12.2016 on changing the basic terms of the swap agreement and the model of the long-term swap agreement.
34	Changes in interest rates on long-term swap agreements	9/21/2020	A-380	Pursuant to Article 3.3 of the long-term swap agreement regulation, the weighted average interest rate on foreign currency current accounts, which is a component of USD interest rate on renewed and newly entered unrealized transactions, was changed to 1.2 percent after June 24, 2020.
35	Amend Articles 1.2.13 and 2.1.2 of the Housing Mortgage Financing Regulation.	10/1/2020	A-392	Changing the definition of private housing, the loan interest rate was set at 8 percent for loans issued before October 1, 2020, and 6 percent for loans issued after.
36	Amendments to the Bank of Mongolia's procedure for issuing guarantees and supplements for special conditions.	10/9/2020	A-400	Amendment of Article 2.2.4 of the Regulation on Guarantees for Exercising the Powers of the State Inspection of the Bank of Mongolia and Supplementation of Extraordinary Conditions.
37	About setting the price of coins and pellets	10/9/2020	A-401	The selling price of 1 kg of silver oblong is set at MNT 3,000,000 and the selling price of 4 kg packaged pills is set at MNT 10,000,000.
38	Approval of the "Central Bank Repo Trading Procedure"	11/25/2020	A-425	The Bank of Mongolia shall regulate repo financing to banks in order to implement monetary policy.
39	To update and approve the "Operational risk management regulation" of the Bank of Mongolia in accordance with the appendix to this order.	12/24/2020	A-472	To regulate relations related to the implementation of operational risk management of the Bank of Mongolia.
Decisions of the Monetary Policy Committee				
1	Reducing the policy rate, reducing the required reserve ratio of the togrog, and redefining the policy interest rate corridor	3/11/2020	2020/01	It was decided to reduce the policy rate by 1 percentage point to 10 percent, reduce the required reserve ratio of the togrog by 2 percentage points to 8.5 percent, and change the policy interest rate corridor from the policy rate to +1, -1 percentage point.
2	Reducing policy interest rates and extending consumer loans	4/13/2020	2020/02	1) to reduce the policy rate by 1 percentage point to 9 percent, and 2) to extend the term of the consumer loan for up to 12 months.
3	Measures to maintain policy rates and reduce the dollarization of bank resources	6/26/2020	2020/03	1) To keep the policy rate unchanged taking into account the current economic and financial market situation, future outlook and uncertainty of external and internal environment; 2) To reduce the dollarization of bank resources and maintain the relative return of the togrog The decision to reduce the required togrog reserve premium to be paid to the bank as a percentage of foreign currency deposits and interest-bearing foreign currency current accounts is reflected.
4	Extension of consumer loans	8/7/2020	2020/04	Due to the difficult economic situation, it has been decided to restructure consumer loans that have defaulted and extend them until December 31, 2020.

5	On lowering policy rates and introducing long-term repo financing instruments	9/14/2020	2020/05	(1) reduce the policy rate by 1 percentage point to 8 percent; (2) decided to introduce a long-term repo financing instrument.
6	To reduce policy rates, required reserves, extend consumer loans, and introduce long-term refinancing instruments	11/23/2020	2020/06	1. Reduce the policy rate by 2 percentage points to 6 percent; 2. Reduce the required reserve ratio of the togrog by 2.5 percentage points to 6 percent; 3. Restructuring and extending consumer loans that are in arrears until July 1, 2021; 4. A package of decisions was made, including the introduction of long-term refinancing instruments to support small and medium enterprises and non-mining exports.
7	About maintaining the policy rate and the amount of funding	12/18/2020	2020/07	Maintain the policy rate; A decision has been made to provide up to MNT 250 billion in the first quarter of 2021 through long-term refinancing to support small and medium enterprises and non-mining exports.

4.10 ECONOMIC RESEARCH AND TRAINING INSTITUTE

Research

In line with its commitment to support Mongolia's economic, fiscal and development policymaking, the Economic Research and Training Institute (ERTI) conducted the following working papers in 2020.

- “The Impact of Exchange Rate on Purchasing Power”
- “The Impact of Monetary Policy on Exchange Rate”
- “The Impact of Fiscal Policy on Exchange Rate”
- “The Impact of Capital Flows on Exchange Rate”
- “The Analysis of Mongolia's Economic Performance in 2019, Economic Outlook for 2020, and Economic Policy for the “Heightened State of Emergency Readiness” Period”
- “Inflation Calendar”
- “The Impact of Monetary Policy on Different Income Groups”
- “Regional Economy” data overview
- “A Brief Analysis of the Non-Mining Export Data; Marketing and Financing Plan for Non-Mining Export Development”
- “The Effectiveness of Currency Intervention in a Commodity-Exporter: Evidence from Mongolia”

To provide government agencies with the necessary economic policy research, ERTI organized the following events:

- Delivered “The Analysis of Mongolia's Economic Performance in 2019, Outlook for 2020, and Economic Policy for the “Heightened State of Emergency Readiness” Period” to the government offices including 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;
- Delivered the working papers published in the “Money, Finance, Wealth” journal to government officials.

Training

ERTI has organized the following events and training activities in cooperation with other departments for Bank

of Mongolia staff:

- Effective Communication and Conflict Management training
- Leadership and Time Management seminar
- Leadership and Communication Management training
- Orientation training for new employees

Additionally, ERTI carried out all departmental training needs assessments and has started to introduce e-learning activities.

Cooperation

In line with its commitment towards developing effective cooperation between other government agencies, ministries, and administration units, the following meetings were organized:

- In cooperation with the Embassy of Mongolia to the Swiss Confederation, ERTI organized virtual meetings with The Graduate Institute of Geneva to participate in the BCC programme, a bilateral capacity building program for central banks of developing countries funded by the State Secretariat for Economic Affairs.

**BANK OF MONGOLIA
(INCORPORATED IN MONGOLIA)**

AUDITED FINANCIAL STATEMENTS

31 DECEMBER 2020

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****GENERAL INFORMATION**

BOARD OF DIRECTORS:	Mr. Lkhagvasuren B.	Governor
	Mr. Dulguun G.	First Deputy Governor (appointed 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. Narandalai Ts.	Director General, Supervision Department
	Mr. Ariunbat N.	Director General, Banking Resolution and Policy 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	

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****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 72 presents fairly, in all material respects, the financial position of the Bank as at 31 December 2020 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: 31 March 2021

For this report the Audited Financial Statement is set out between pages 89 and 175.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020



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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 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, 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 2020, 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 2020 included coins with a carrying amount of MNT916,278 million (2019: MNT916,278 million). The coins primarily consisted of silver and copper 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 the importance of an individual item;
- obtaining the gemstone and precious metal certification approved by a respected laboratory; or
- 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 MNT916,278 million as at 31 December 2020 (2019: MNT916,278 million) are appropriately classified as treasury assets included in the treasury fund and whether the revaluation surplus amounting to MNT nil (2019: MNT914,539 million) arising on their revaluation to fair value should have been recognised as other reserves within the Bank's equity as at 31 December 2020 and its opening balance as at 1 January 2020. A qualified opinion contained in our report dated 22 May 2020 was issued on the financial statements for the year ended 31 December 2019, for the same reason.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (the "IESBA Code")*, 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 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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

**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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020



INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the Board of Directors of Bank of Mongolia

Other Matter

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 of Mongolia and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by

Mandakhbayar Dorjbat
Director

Ulaanbaatar, Mongolia
Date: 31 March 2021

Approved by

Adrian Chu
Partner

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

**BANK OF MONGOLIA
STATEMENT OF PROFIT LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 MNT'million	2019 MNT'million
Interest and similar income	6	694,862	724,318
Interest and similar expense	7	(1,095,830)	(1,182,320)
Net interest expense		(400,968)	(458,002)
Net gains from trading and revaluation of gold and precious metals	8	879,608	499,822
Net losses from derivative financial instruments	9	(381,196)	(227,872)
Net (losses)/gains on foreign currencies exchange	10	(459,090)	85,335
Credit loss expense	11	(81,355)	(14,521)
Net gains from disposal and trading of financial investments in securities	12	3,171	771
Loss on fair value change of promissory notes	13	(27,707)	(88,524)
Other operating income	14	29,623	28,847
Administrative and other operating expenses	15	(65,464)	(55,735)
Loss for the year		(503,378)	(229,879)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
- Gains on fair value change of investment securities at FVOCI	34	95,661	66,702
- (Losses)/gains reclassified to the profit or loss upon disposal of investment securities at FVOCI	34	(3,262)	3,833
<i>Items that will not be reclassified to profit or loss:</i>			
- Revaluation surplus for treasury fund	34	-	137,035
Other comprehensive income for the year		92,399	207,570
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(410,979)	(22,309)

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



Garid Ts.
Director of Finance and
Accounting Department

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

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

**BANK OF MONGOLIA
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020**

	Notes	2020 MNT'million	2019 MNT'million
ASSETS			
Cash on hand	16	233,373	214,244
Due from foreign financial institutions	17	4,517,392	4,458,508
Loans to local banks	18	461,314	442,918
Investments in debt securities	19	5,275,129	3,873,142
Investments in equity securities	20	6,595	11,734
Reverse repurchase agreements	21	4,816,068	3,254,437
Gold bullion and precious metals	22	1,785,857	3,108,684
Treasury fund	23	1,071,665	1,068,860
Derivative financial instruments	24	156,419	260,778
Government securities	25	227,407	134,028
Other assets	26	423,673	492,322
Premises, equipment and intangible assets	27	115,201	94,149
Assets held for sale		6,280	1,003
TOTAL ASSETS		19,096,373	17,414,807
LIABILITIES			
Cash in circulation	28	991,470	897,417
Central bank bills	29	7,952,438	4,629,293
Liabilities due to government organizations	30	2,132,025	2,201,585
Deposits from local banks	31	3,871,397	6,038,704
Derivative financial instruments	24	303,501	545,040
Liabilities due to foreign parties	32	5,789,508	4,969,684
Other liabilities	33	365,317	31,388
TOTAL LIABILITIES		21,405,656	19,313,111
EQUITY			
Charter capital	34	60,000	60,000
Accumulated deficit		(4,327,545)	(3,698,110)
Other reserves	34	1,958,262	1,739,806
NET DEFICIENCY IN ASSETS		(2,309,283)	(1,898,304)
TOTAL LIABILITIES AND EQUITY		19,096,373	17,414,807

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

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****BANK OF MONGOLIA****STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2020**

	Charter capital	Other reserves	Accumulated deficit	Net deficiency in assets
	MNT'mil	MNT'mil	MNT'mil	MNT'mil
	(Note 34)	(Note 34)	(Note 34)	
At 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 and 1 January 2020	60,000	1,739,806	(3,698,110)	(1,898,304)
Total comprehensive income for the year	–	92,399	(503,378)	(410,979)
Net transfer from accumulated deficit	–	126,057	(126,057)	–
At 31 December 2020	60,000	1,958,262	(4,327,545)	(2,309,283)

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

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

BANK OF MONGOLIA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 MNT'million	2019 MNT'million
Cash flows from operating activities			
Loss for the year		(503,378)	(229,879)
<i>Adjustments to:</i>			
Loss on fair value change of promissory notes	13	27,707	88,524
Unrealized gains from revaluation of monetary metals, net	8	(151,293)	(382,855)
Net (gains)/losses from derivative financial instruments	9	(138,813)	136,512
Net translation losses/(gains) in foreign currencies	10	584,891	(13,541)
Depreciation of premises, equipment and intangible assets	15	6,090	4,793
Loss on disposal of asset held for sale	15	–	1,144
Loss on property and equipment written offs	15	5	70
Loss on disposal of equity financial instruments	12	84	–
Credit loss expense	11	81,355	14,521
Non-monetary donation	27	(111)	–
Interest income	6	(694,862)	(724,318)
Interest expense	7	1,095,830	1,182,320
Cash flows generated from operating activities before changes in operating assets and liabilities		307,505	77,291
<i>Changes in operating assets and liabilities:</i>			
Net decrease/(increase) in gold bullion and precious metals		1,474,120	(540,172)
Net increase in treasury fund		(2,805)	(584)
Net increase in reverse repurchase agreements		(1,546,820)	(783,553)
Net increase in loans to local banks		(25,233)	(2,928)
Net (increase)/decrease in debt instrument		(680,150)	164,877
Net decrease in other assets		20,295	262,037
Net increase/(decrease) in central bank bills		3,316,148	(386,102)
Net (decrease)/increase in liabilities due to government organizations		(166,179)	1,041,240
Net (decrease)/increase in deposits of local banks		(2,310,184)	1,732,796
Net increase/(decrease) in other liabilities		331,892	(85,783)
Net cash generated from operating activities before interest		718,590	1,479,119
Interest received		637,014	664,423
Interest paid		(1,097,097)	(1,150,735)
Net cash flow generated from operating activities		258,507	992,807
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets	27	(44,069)	(32,619)
Proceeds from disposal of property and equipment		11,756	58
Proceeds from sale of equity financial instruments		5,055	–
Proceeds from disposal of asset held for sale		–	2,154
Acquisition of financial instruments at FVOCI and long term debt instruments at amortised cost		(1,589,766)	(2,943,376)
Proceeds from sale of financial instruments at FVOCI and long term debt instruments at amortised cost		933,596	3,635,984
Net cash flows generated/(used) in investing activities		(683,428)	662,201
Cash flows from financing activities			
Increase/(decrease) of cash in circulation	28	94,053	(71,201)
Increase/(decrease) in liabilities due to foreign parties		238,598	(1)
Net cash generated from/(used in) financing activities		332,651	(71,202)
Effect of exchange rate changes on cash and cash equivalents		171,961	148,533
Net increase in cash and cash equivalents		79,691	1,732,339
Cash and cash equivalents at the beginning of year		4,672,580	2,940,241
Cash and cash equivalents at the end of the year	16	4,752,271	4,672,580

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

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****BANK OF MONGOLIA****STATEMENT OF CASH FLOWS (CONT'D.)****FOR THE YEAR ENDED 31 DECEMBER 2020*****Changes in liabilities arising from financing activities:***

	2020	2019
	MNT'million	MNT'million
At 1 January	4,969,684	4,906,130
<i>Cash activities</i>		
Drawdown	284,364	–
Repayment	(45,766)	(1)
<i>Non-cash activities</i>		
Foreign exchange loss, net	581,226	67,552
At 31 December	5,789,508	4,969,684

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

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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 of the Bank for the year ended 31 December 2020 were authorised for issue in accordance with an authorisation of the Board of Directors on 31 March 2021.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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 through 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. All values are rounded to the nearest million, unless otherwise stated.

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 2020, 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

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective as of 1 January 2020 and which the Bank has not early adopted:

New and amended standards and interpretations

- | | |
|--|--|
| • Amendments to IFRS 3 | <i>Definition of a Business</i> |
| • Amendments to IFRS 7, IFRS 9 and IAS 39 | <i>Interest Rate Benchmark Reform</i> |
| • Amendments to IAS 1 and IAS 8 | <i>Definition of Material</i> |
| • Conceptual Framework for Financial Reporting | <i>Issued on 29 March 2018</i> |
| • Amendments to IFRS 16 | <i>Covid-19 Related Rent Concessions</i> |

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D.)***Amendments to IFRS 3: Definition of a Business***

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank but may impact future periods should the Bank enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39, Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, “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 clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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

The amendments to 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.

Standards issued but not yet effective

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

• IFRS 17	<i>Insurance Contracts</i> ²
• Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ²
• Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i> ¹
• Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ¹
• Amendments to IAS 37	<i>Onerous Contracts – Costs of Fulfilling a Contract</i> ¹
• IFRS 1 First-time adoption of International Financial Reporting Standards	<i>Subsidiary as a first-time adopter</i> ¹
• IFRS 9 Financial Instruments	<i>Fees in the '10 per cent' test for derecognition of financial liabilities</i> ¹
• IAS 41 Agriculture	<i>Taxation in fair value measurements</i> ¹

1 Effective for annual periods beginning on or after 1 January 2022

2 Effective for annual periods beginning on or after 1 January 2023

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

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.

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 Expected Credit Loss (“ECL”) allowance is recognised for financial assets measured at AC and investments in debt instruments measured at Fair Value through Other Comprehensive Income (“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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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

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.

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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

i) Financial Assets (cont'd.)

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.

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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

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.

i. Financial Assets (cont'd.)

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.

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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**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 “saleable with pre-approval”.

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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

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.

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.)

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**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. Impairment provision for the debt securities measured at AC are determined based on the forward-looking ECL models, refer to Note 37.

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.

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. 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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**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. 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 some 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. Refer to Note 38.

Receivables from remaining promissory note is carried at AC and subject to impairment assessment which are determined based on the forward-looking ECL models. Refer to Note 37.

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.

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).

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

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:

	<u>Useful lives in years</u>
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.

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. Refer to Note 31.

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 loans obtained from People's Bank of China, (central bank of China, "PBC") and MUFG Bank Ltd, a new loan. Refer to Note 32 for details.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**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 2020, Mongolia's quota in the IMF amounted to SDR 72.3 million (2019: 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.

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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

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 700.6 million as of 31 December 2020 (2019: MNT 673.3 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 expected to be paid by the Bank on behalf of MOF to IMF within November 2028. As at 31 December 2020, liabilities due to MOF under three year EFF program was SDR 157.5 million, which is equivalent to MNT 645,616 million (2019: SDR 157.7 million, which is equivalent to MNT 594,794 million), 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 2020 and 2019, 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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

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 'Loss on fair value change of promissory notes' 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.

Management believes that Social Development Fund as of 31 December 2020 and 31 December 2019 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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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 and economic inputs, selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the PD of ECL models
- Determination of unrecoverable value from collaterals to determine LGDs for specific assets pledged

Reassessment of the ECL model taking into consideration impact arising from the Covid-19 pandemic.

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. Refer to Note 37 for details.

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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 for some of the promissory notes.
- Discount rate: The policy rate of the Bank increased by the counterparty's credit risk of 2-11.8% per annum (2019: 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.

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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 2020, the treasury fund amounted to MNT1,071,665 million (2019: MNT1,068,860 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

	2020 MNT'million	2019 MNT'million
<i>Interest income calculated using the effective interest method</i>		
Debt securities at AC and at FVOCI	161,561	157,048
Due from foreign financial institutions	27,474	87,080
Reverse repurchase agreements	19,041	45,645
Loans to local banks	13,063	14,933
Government securities	13,223	11,732
	<u>234,362</u>	<u>316,438</u>
<i>Other interest and similar income</i>		
Other assets measured at FVTPL	42,810	46,247
Financial derivatives	417,690	361,633
	<u>460,500</u>	<u>407,880</u>
	<u>694,862</u>	<u>724,318</u>

7. INTEREST AND SIMILAR EXPENSE

	2020 MNT'million	2019 MNT'million
<i>Interest expense calculated using the effective interest method</i>		
Central bank bills	465,875	514,534
Liabilities due to foreign parties	249,375	250,319
Fulfilment on mandatory reserve requirement to local banks (Note 31)	52,378	76,035
Liabilities due to government organisation	31,139	60,820
Deposits from local banks	15,377	11,870
Other interest expense	2,267	1,041
	<u>816,411</u>	<u>914,619</u>
<i>Other interest and similar income</i>		
Financial derivatives	279,419	267,701
	<u>1,095,830</u>	<u>1,182,320</u>

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****8. NET GAINS FROM TRADING AND REVALUATION OF GOLD AND PRECIOUS METALS**

	2020 MNT'million	2019 MNT'million
Gains on trading monetary precious metals, net	688,344	81,328
Gains from refining precious metals, net	39,971	35,639
Unrealized gains from revaluation of monetary metals, net (Note 22)	151,293	382,855
	<u>879,608</u>	<u>499,822</u>

9. NET LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS

	2020 MNT'million	2019 MNT'million
Realised losses on financial derivatives, net	(520,009)	(91,360)
Unrealised (losses)/gain on financial derivatives, net	138,813	(136,512)
	<u>(381,196)</u>	<u>(227,872)</u>

10. NET (LOSSES)/GAINS ON FOREIGN CURRENCIES EXCHANGE

	2020 MNT'million	2019 MNT'million
Unrealized translation (losses)/gains on foreign currencies, net	(584,891)	13,541
Realized translation gains on foreign currencies, net	127,157	71,705
Foreign exchange trading (losses)/gains	(1,356)	89
	<u>(459,090)</u>	<u>85,335</u>

11. CREDIT LOSS EXPENSE

The table below shows the ECL charges/(reversal) on financial instruments for the year 2020 and 2019 recorded in profit or loss:

	2020 MNT'million	2019 MNT'million
Other financial assets (Note 26)	36,287	7,175
Investment in debt securities (Note 19)	31,128	5,298
Loan to local banks (Note 18)	8,679	2,726
Government securities (Note 25)	3,635	(611)
Due from foreign financial institution (Note 17)	1,687	(141)
Reverse repurchase agreement (Note 21)	(61)	74
	<u>81,355</u>	<u>14,521</u>

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****12. NET GAINS ON DISPOSAL AND TRADING OF FINANCIAL INVESTMENTS IN SECURITIES**

Net gains/(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.

	2020	2019
	MNT'million	MNT'million
Net gains/(losses) from disposal of financial investments in debt securities	3,262	(3,833)
Loss on disposal of Equity financial instruments	(84)	–
Net (losses)/gains from disposal and trading of financial investments in debt securities	<u>(7)</u>	<u>4,604</u>
	<u>3,171</u>	<u>771</u>

13. LOSSES ON FAIR VALUE CHANGES OF PROMISSORY NOTES

Fair value loss on promissory notes of MNT 27,707 million solely represents fair value change of promissory notes measured at FVPL for the year ended 31 December 2020 (2019: gains of MNT 88,524 million).

14. OTHER OPERATING INCOME

	2020	2019
	MNT'million	MNT'million
Commission income	17,472	14,018
Penalty income	9,917	12,175
Rental income from property and equipment	575	580
Other operating income	<u>1,659</u>	<u>2,074</u>
	<u>29,623</u>	<u>28,847</u>

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

15. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2020 MNT'million	2019 MNT'million
Staff cost	23,310	20,231
Cost of printing banknotes	15,549	11,527
Depreciation and amortisation of premises, equipment and intangible assets (Note 27)	6,090	4,793
Facility, arrangement, and refining fees related to gold financing	5,501	1,329
Gold transportation and shipping expense	2,596	1,557
Telecommunication and utility expense	2,034	1,823
Security expenses	1,657	1,382
System maintenance fee	1,008	860
Advertising expenses	864	1,054
Membership and professional fees	787	658
Maintenance of property and equipment	684	308
Transportation and trip expenses	629	1,305
Training expenses	209	463
Legal service fees	56	813
Loss on disposal of asset held for sale	–	1,144
Loss on property and equipment written offs (Note 27)	5	70
Other expenses	4,485	6,418
	<u>65,464</u>	<u>55,735</u>

16. CASH AND CASH EQUIVALENTS

	2020 MNT'million	2019 MNT'million
Cash on hand	<u>233,373</u>	<u>214,244</u>
Due from foreign financial institutions (Note 17)		
- Short term deposits in foreign currency	3,509,327	3,553,803
- Demand deposits	878,068	769,362
- Special drawing rights holdings	<u>131,503</u>	<u>135,171</u>
Total cash and cash equivalents for the statement of cash flow	<u>4,752,271</u>	<u>4,672,580</u>

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

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

17. DUE FROM FOREIGN FINANCIAL INSTITUTIONS

	2020 MNT'million	2019 MNT'million
Short term deposits in foreign currency	3,509,327	3,553,803
Demand deposits	878,068	769,362
Special drawing rights holdings	131,503	135,171
World Bank subscription	179	172
Other subscriptions	13	11
Gross carrying amount	<u>4,519,090</u>	<u>4,458,519</u>
Less: Allowance for credit loss	(1,698)	(11)
Net carrying amount	<u>4,517,392</u>	<u>4,458,508</u>

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 29 days (2019: 84 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 2020, the balance is SDR 35.8 million (2019: SDR 35.8 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.

Impairment allowance for due from foreign financial institutions

The following table contains an analysis by credit quality at 31 December 2020 and 2019 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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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

Reconciliations of changes in the credit allowance for amount due from foreign financial institutions for 2020 and 2019 are as follows:

	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 sub- scriptions MNT'mil	Total MNT'mil
31 December 2020							
- Excellent	0%-0.06%	3,509,327	878,068	131,503	179	13	4,519,090
Gross carrying amount		3,509,327	878,068	131,503	179	13	4,519,090
(-) ECL allowance		(1,677)	(21)	–	–	–	(1,698)
Carrying amount		3,507,650	878,047	131,503	179	13	4,517,392
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

	2020 MNT'million	2019 MNT'million
1 January	11	152
Credit loss expense/(reversal) (Note 11)	1,687	(141)
At 31 December	1,698	11

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.

18. LOANS TO LOCAL BANKS

	2020 MNT'million	2019 MNT'million
Loans issued under Price Stabilization Program	383,799	442,104
Other loans	93,960	8,580
Gross carrying amount	477,759	450,684
Less: Allowance for credit loss	(16,445)	(7,766)
Total loans to local banks at AC	461,314	442,918

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 resolution 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.

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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 2020 amounting to MNT 383,799 million (2019: MNT 442,104 million) represents mortgage loan financing under the Price Stabilization Program and the loans bear interest rate of 1% to 4% per annum.

In implementing measures against impact of Covid-19 pandemic under "Law to reduce the social and economic impact of the coronavirus pandemic" enacted in 2020 and according to the Governor's resolution A-428a, the Bank has stopped interest accrual on the mortgage loan financing provided to local banks starting from 25 November 2020 until 1 July 2021 to reduce the financial burden on the individual borrowers. As this has been considered as a modification in the loan agreement, the management has calculated modification loss for the period that interest will have been stopped and assessed the result is immaterial to the financial statement.

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 3,088 million (2019: MNT 2,020 million), Government of Germany through KfW in the amount of MNT 11,944 million (2019: MNT 5,498 million), Gold-2 project in the amount of MNT 72,828 million (2019: nil), and secured loan in the amount of MNT 6,100 million (2019: nil).

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 (2019: 7% 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. 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.

Under a framework of Gold-2 project approved by Parliament order 32 issued in 2020 and Government of Mongolia order 167 issued in 2017 as well as in relation to "Law to reduce the social and economic impact of the coronavirus pandemic" enacted in 2020, the Bank has started financing domestic gold mining entities through commercial banks since 2020 for a purpose to increase foreign exchange reserves of Mongolia by supporting the gold miners' working capital. The loan bears interest rate of policy rate plus 3% and has term up to 24 months. According to the financing agreement, the Bank has a right to withdraw the repayments from the current account of respective commercial banks at Bank of Mongolia upon repayment date.

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

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 fully repaid in 2020 (2019: MNT 290 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 738 million (2019: MNT 772 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 2020 and 2019 are as follows:

Expected credit loss 0	Drawn exposure MNT'mil	Forward- looking PD	LGD	ECLs as part of loan balance MNT'mil
At 31 December 2020				
Stage 1	458,819	2.8% - 3.3%	63%	8,707
Stage 2	6,100	13.8%-15.5%	0%*	–
Stage 3	12,840	100%	70%	7,738
	<u>477,759</u>			<u>16,445</u>
At 31 December 2019				
Stage 1	437,453	2.6% - 4.4%	25%	3,059
Stage 3	13,231	100%	38%	4,707
	<u>450,684</u>			<u>7,766</u>

*Financial investment on stage 2 is sufficiently collateralized

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

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 2020	437,453	–	13,231	450,684
New assets originated or purchased	288,675	–	–	288,675
Asset transferred to Stage 2	(6,100)	6,100	–	–
Assets derecognized or repaid	(261,261)	–	(339)	(261,600)
At 31 December 2020	<u>458,767</u>	<u>6,100</u>	<u>12,892</u>	<u>477,759</u>
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	<u>437,453</u>	<u>–</u>	<u>13,231</u>	<u>450,684</u>
ECL allowance as at 1 January 2020	3,059	–	4,707	7,766
Net charge during the year (Note 11)	5,648	–	3,031	8,679
At 31 December 2020	<u>8,707</u>	<u>–</u>	<u>7,738</u>	<u>16,445</u>
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 yearend ECL of exposures transferred between stages	(312)	–	312	–
At 31 December 2019	<u>3,059</u>	<u>–</u>	<u>4,707</u>	<u>7,766</u>

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

	2020 MNT'million	2019 MNT'million
Debt securities at FVOCI:		
-RAMP Investment Account Assets	930,566	870,831
-Bonds issued by Bank for International Settlements	898,352	–
-US treasury bills	278,804	260,422
-BIS investment	146,569	136,676
-IBRD	47,800	67,444
-KfW bond	30,554	67,814
-China government bond	–	35,746
-European Investment Bank bond	17,575	10,910
Net carrying amount	<u>2,350,220</u>	<u>1,449,843</u>
Debt securities at AC:		
-Senior RMBS bonds	2,324,824	2,380,404
-Erdenes bonds	547,155	–
-Development Bank securities	55,650	49,522
-Lease backed bonds	34,694	–
Gross carrying amount	<u>2,962,323</u>	<u>2,429,926</u>
Less: Allowance for credit loss	(37,414)	(6,627)
Net carrying amount	<u>2,924,909</u>	<u>2,423,299</u>
Total investments in debt securities	<u>5,275,129</u>	<u>3,873,142</u>

(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 2020, the Investment Account Assets consist of cash balance in the amount of USD 0.34 million equivalent to MNT 956 million (2019: USD 0.32 million equivalent to MNT 864 million), and securities in the amount of USD 326 million equivalent to MNT 929,610 million (2019: 319 million equivalent to MNT 869,976 million). The custodian of the Investment Account Assets is Federal Reserve Bank of New York.

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 in the amount of MNT 898,352 million (2019:nil) with up to 117 days of maturity (2019: 94 days) and bear interest rate and yield of approximately 0.1% and 2.4% per annum (2019: 2.44% per annum). The Bank invested into these securities due to their low credit risk and high reputation of the BIS.

US treasury bills and IBRD. At the end of financial year, this investment account balance consisted of USD 114 million equivalent to MNT 326,935(UST+IBRD) million (2019: MNT 327,866). Maturity of these bonds is 1 year to 3 year (2019: 2 to 3 years) and interest rate and yield of 1.125% to 2.75% per annum (2019: 0.9% to 2.75% per annum). These are not collateralized.

BIS investment. In order to improve foreign currency reserve management BOM has implemented BIS's "Resource management improvement consulting and resource management project since 2019. As of 31 December 2020, the investment balance is USD 51 million equivalent to MNT 146,569 million (2019: USD 50 million equivalent to MNT 136,676 million).

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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

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 2020 and 2019 are as follows:

	Stage 1		Stage 1	
	Fair value MNT'mill	ECL MNT'mill	Fair value MNT'mill	ECL MNT'mill
1 January	1,449,843	80	2,255,400	120
New assets originated or purchased	1,589,766	381	2,630,433	–
Payments and assets derecognised	(758,893)	(40)	(3,491,616)	(40)
Changes in fair value	4,854	9,440	9,440	–
Accrued interest	2,478	(263)	(263)	–
Foreign exchange adjustments	62,172	46,449	46,449	–
At 31 December	2,350,220	56,047	1,449,843	80

(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.

Erdenes bonds. 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 6% 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.

The bond shall be repaid by the government's return from the operation of “Salkhit” silver and gold deposit owned by one of the subsidiaries of Erdenes Mongol LLC.

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. Coupon payments are paid semi-annually.

Lease backed bonds. On 7 October 2020, to support and provide affordable housing to the civil service employees, the Bank purchased 343,555 of bonds issued by City Housing Corporation (“NOSK”) JSC with a maturity of 15 years and an interest rate of 8% per annum, par valued at MNT 100,000 each. The bond is collateralized by the rental income from leased property owned by NOSK JSC or the residential apartments.

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

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 2020	Stage 1			ECL MNT'mil
	Drawn exposure MNT'mil	Forward- looking PD	GD	
Excellent	2,350,641	0% - 0.59%	60.0%	421
Good	2,380,474	1.9% - 10.4%	62.71%	5,471
Non-rated*	581,849	3.9%-11.9%	48%-52%	31,943
	<u>5,312,964</u>			<u>37,835</u>
31 December 2019				
Excellent	1,449,923	0% - 0.26%	25%	80
Good	2,429,926	2.57% - 4.42%	1.57%- 4.42%	6,627
	<u>3,879,849</u>			<u>6,707</u>

*Non-rated grade pertains to Erdenes bond and Lease asset backed securities. Repayment of the assets are guaranteed by Development Bank of Mongolia with around 50% coverage.

ECL allowances for debt securities measured at FVOCI amounting to MNT 421 million (2019: MNT 80 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 2020 and 2019:

	2020 MNT'mil	2019 MNT'mil
At 1 January	6,707	1,409
Purchase of new investments	34,391	5,298
Changes to input used for ECL calculation	(3,183)	–
Matured	(80)	–
At 31 December	<u>37,835</u>	<u>6,707</u>

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20. INVESTMENTS IN EQUITY SECURITIES

	2020 MNT'million	2019 MNT'million
Equity securities at FVOCI:		
Other equity investments	6,595	6,595
Equity investment in MIK	–	5,139
Net carrying amount	<u>6,595</u>	<u>11,734</u>

Equity investment in MIK. The bank held Equity investment of 421,241 shares in MIK. The shares were sold in the 4th quarter of 2020 for MNT 5,055 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 be approximate to its cost.

21. REVERSE REPURCHASE AGREEMENTS

	2020 MNT'million	2019 MNT'million
Federal Reserve Bank of New York	4,393,375	2,700,444
Local banks	422,706	554,067
Gross carrying amount	<u>4,816,081</u>	<u>3,254,511</u>
Less: Allowance for credit loss	(13)	(74)
Net carrying amount	<u>4,816,068</u>	<u>3,254,437</u>

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 2020, the funds invested in repo pool amounted to USD 1,541.8 million equivalent to MNT 4,393,375 million (2019: USD 987.9 million equivalent to MNT 2,700,444 million). This investment has 4 days maturity (2019: 2 days) and carries interest rate of 0% per annum (2019: 1.45% per annum). Though related investments are effectively collateralized, there is no clear identification of securities purchased using this pool 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, government securities and Central bank bills.

As at 31 December 2020, overnight reverse repurchase agreements with local banks denominated in MNT amounted to MNT 129,141 million with 4 days of maturity and interest rate of 7% per annum is included in reverse repurchase agreement (2019: MNT 494,467 million with 2 days of maturity at interest rate of 13% per annum). This agreement is secured by government securities.

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21. REVERSE REPURCHASE AGREEMENTS (CONT'D.)

As at 31 December 2020, the reverse repurchase agreements par value of MNT 65,000 million (2019: MNT 65,000) with maturity of 6 years (2019: 3 to 6 years) and bears interest rate of 7.5% per annum (2019: 7.5% per annum) are secured by bonds issued by Development bank of Mongolia. Carrying value of the agreements as at 31 December 2020 is MNT 62,327 million (2019: MNT 59,600 million). The difference between the par value and the fair value totalling to MNT 23,426 million was recognized as an initial recognition loss in profit or loss for 2016.

As at December 2020, remaining long term repo agreements with local banks denominated in MNT amounted to MNT 230,000 million (2019: nil) with maturity of 2 years and bear annual interest rate of 6.5% and those are secured by Central Bank Bills purchased by local banks. Carrying value of the agreements as at 31 December 2020 is MNT 231,238 million (2019: nil). As per the agreements, each bank shall exchange the collaterals by a security backed by performing loans portfolios within three months after the agreement date.

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 2020 and 31 December 2019, based on the internal credit risk grades. For more information, refer to Note 37.

	Net carrying amount MNT'mil	12-month PD range	LGD	ECL as part of the balance MNT'mil
31 December 2020				
Internal rating grade				
Excellent	4,393,362	0.09%-0.3%	60%	(13)
Good	<u>422,706</u>	<u>2.44%-3.31%</u>	<u>0%*</u>	<u>(13)</u>
	<u>4,816,068</u>			<u>(13)</u>
31 December 2019				
Internal rating grade				
Excellent	2,700,444	0%	25%	–
Good	<u>553,993</u>	<u>2.57%-4.42%</u>	<u>0%-4.4%</u>	<u>(74)</u>
	<u>3,254,437</u>			<u>(74)</u>

* These assets are fully collateralized by Central bank bills and Development bank bonds.

Reversal of ECL allowance amounting to MNT 61 million (2019: ECL charge of MNT 74 million) has been recognized in profit or loss for the year, see Note 11.

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22. GOLD BULLION AND PRECIOUS METALS

	2020 MNT'million	2019 MNT'million
At fair value		
Gold bullion	1,404,034	3,053,057
Silver	1,853	4,472
At cost		
Gold and silver purchased from miners	353,458	36,800
Gold in transit for refining	24,309	12,375
Commemorative coins	2,203	1,980
	<u>1,785,857</u>	<u>3,108,684</u>

Monetary gold and silver are mainly placed at Bank of England and JP Morgan Chase Bank. Net unrealised gain from valuation of monetary metals were MNT 151,293million (2019: MNT 382,855 million) as at 31 December 2020. Refer to Note 8.

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.

23. TREASURY FUND

	2020 MNT'million	2019 MNT'million
Main fund	145,701	145,063
Operational fund	925,964	923,797
	<u>1,071,665</u>	<u>1,068,860</u>

Below table shows the movement of the Treasury fund based on nature of the treasuries as at 31 December 2020 and 2019:

At fair value	Coins MNT'mil	Cultural valuables MNT'mil	Total MNT'mil
At 1 January 2019, at fair value	838,639	92,602	931,241
Addition	7	588	595
Revaluation	78,902	58,122	137,024
At 31 December 2019 and 1 January 2020,			
at fair value	917,548	151,312	1,068,860
Addition	37	2,768	2,805
Revaluation	–	–	–
At 31 December 2020, at fair value	917,585	154,080	1,071,665

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 2020 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 a carrying amount of MNT916,278 million (2019: MNT916,278 million).

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****23. TREASURY FUND (CONT'D.)**

Starting from 2018, management changed its accounting policy to fair value its treasury assets (please refer to Note 4 for details of the accounting policy) and has engaged with an external valuation company “Make a Difference” LLC to revalue its treasury assets. Treasury assets were valued using the direct comparable method and the replication method. The 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.

The replication method is a cost approach, which provides a 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 the fair value measurement.

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 USD'mil	Notional amount MNT'mil	Fair value	
			Assets MNT'mil	Liability MNT'mil
Swaps				
2020	1,658	4,374,155	156,419	(303,501)
2019	1,998	4,797,569	260,778	(545,040)

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.

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25. GOVERNMENT SECURITIES

	2020 MNT'million	2019 MNT'million
Government securities at FVOCI	231,365	134,351
Less: Allowance for credit loss	(3,958)	(323)
Gross carrying amount	<u>227,407</u>	<u>134,028</u>

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 and effective interest rate was determined as around 18% per annum against the nominal interest rate.

Furthermore, the 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.

Par value of outstanding government securities as at 31 December 2020 amounted to MNT 374,000 million at coupon rate of 1.0 % per annum and have maturity of 15 years. (2019: 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 2020 and 2019 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 3,635 million (2019: MNT 611 million) has been included in movement of the respective other comprehensive income during the year.

None of the government securities are collateralized as at 31 December 2020 and 2019. 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			
	2020		2019	
	Fair value MNT'million	ECL MNT'million	Fair value MNT'million	ECL MNT'million
At 1 January	134,028	323	65,265	934
New assets originated or purchased	–	–	7,668	–
Net charge/(reversal) of ECL (Note 11)	–	3,635	–	(611)
Changes in fair value	93,379	–	61,095	–
At 31 December	<u>227,407</u>	<u>3,958</u>	<u>134,028</u>	<u>323</u>

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26. OTHER ASSETS

	2020 MNT'million	2019 MNT'million
<i>Other financial assets at AC</i>		
Receivables from Deposit Insurance Corporation	148,958	149,092
Asset received from Anod Bank	58,839	58,965
Receivables from companies	60,360	58,111
Receivables from receivership of Capital bank	55,271	54,480
Promissory notes from receivership of Capital bank	47,732	–
Claims on foreign financial institutions	24,912	23,898
	<u>396,072</u>	<u>344,546</u>
Less: Allowance for credit loss	(305,127)	(265,577)
	90,945	78,969
<i>Other assets measured at FVPL</i>		
Promissory notes	282,545	394,621
<i>Other non-financial assets at AC</i>		
Prepaid expenses	31,425	10,228
Other	18,758	8,504
	<u>50,183</u>	<u>18,732</u>
Total other assets	<u>423,673</u>	<u>492,322</u>

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 2020 is MNT 54,230 million (2019: MNT 43,185 million).

In 2014 and 2016 the loans 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 was 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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

26. OTHER ASSETS (CONT'D.)

Receivables from Deposit Insurance Corporation (DIC) (cont'd.). 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 11,179 million in 2020 due to decrease in discount rate (2019: reversal of credit allowance amounting to MNT 9,093 million). The outstanding principal balance as of 31 December 2020 is MNT 63,952 million (2019: MNT 64,086 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 and settlements during 2020 is MNT 134 million .

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 126 million and MNT 1,650 million were recovered in 2020 and 2019, respectively. The assets after recovery of MNT 58,839 million (2019: MNT 58,965 million) are fully provisioned. Under IFRS 9, the assets are assessed at Stage 3 with 100% of PD and LGD.

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 40,085 million (2019: MNT 38,456 million), are fully provisioned and are assessed at Stage 3 with 100% of PD and LGD as at 31 December 2020 and 2019.

Remaining balances consist of receivables from non-banking institutions amounting MNT 20,275 million as at 31 December 2020 (2019: MNT 19,655 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 2020 and 2019.

Receivables from receivership of Capital bank. Receivables from Capital bank receivership 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 and MNT 791 million on penalty interest on promissory note acquired by Bank in 2020.

Promissory note from receivership of Capital bank. In June 2020, the Bank received promissory note issued by Capital bank receivership with par value of MNT 41 billion and MNT 5.7 billion of interest receivable totaling to MNT 46.7 billion, with 13 months maturity, from the particular entity for its partial settlement of the promissory note measured at FVPL mentioned below. As the promissory note had defaulted in July 2020, it is categorized at Stage 3 in the ECL assessment with 100% of PD. During the year, ECL charge of MNT 29,474 million has been recognized in profit or loss for the year.

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 2020 and 2019, 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:

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

26. OTHER ASSETS (CONT'D.)

As at 31 December 2020, the Bank holds promissory notes issued by two (2) local companies and a local bank, which have a nominal value of MNT 367,425 million (2019: five (5) companies and a bank totaling to MNT 470,000 million). These notes have a maturity of 5 years to 7 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 losses incurred from the promissory notes for the year and Note 38 for the disclosure of fair value measurement.

Other non-financial assets. Other non-financial assets consist of the Bank's prepayments, advances to staff, consumable materials, stationary supplies and gold received from engaged refining entity to enrich its museum collection which is to be transferred to Treasury fund once cost computation is completed. The non-monetary refined gold and silver is measured at lower of cost and net realizable value and amounted to MNT 29,020 million (2019: nil) as at 31 December 2020. Receivables from ADB amounts to MNT 4,875 million (2019: MNT 4,270 million) and project investment amounts MNT 8,191 million (2019: MNT 3,377 million) as at 31 December 2020.

Credit loss allowances. Movements in the credit loss allowances of other financial assets during 2020 and 2019 are as follows:

	Stage 1		Stage 2		Stage 3				Total
	Other financial assets	Promissory note from Capital bank	Receivable from DIC	Asset received from Capital bank	Promissory note from Capital bank	Asset received from Anod bank	Receivables from companies	Claims on foreign financial institution	
At 31 December 2020	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil
Gross carrying amount									
At 1 January 2020	–	–	149,092	54,480	–	58,965	58,111	23,898	344,546
Addition	49,532	–	–	791	–	–	–	–	50,323
Transfer to stage 3	(49,532)	–	–	–	49,532	–	–	–	–
Translation	–	–	–	–	–	–	2,249	1,014	3,263
Repayment during the year	–	–	(134)	–	(1,800)	(126)	–	–	(2,060)
At 31 December 2020	–	–	148,958	55,271	47,732	58,839	60,360	24,912	396,072
Credit allowance									
At 1 January 2020	–	–	105,907	18,696	–	58,965	58,111	23,898	265,577
Translations of provisions denominated in foreign currency	–	–	–	–	–	–	2,249	1,014	3,263
Credit loss expense/(recovery) during the year (Note 11)	7,531	–	(11,179)	18,118	21,943	(126)	–	–	36,287
Impact on year end ECL of exposures transferred between stages	(7,531)	–	–	–	7,531	–	–	–	–
At 31 December 2020	–	–	94,728	36,814	29,474	58,839	60,360	24,912	305,127
Net carrying amount	–	–	54,230	18,457	18,258	–	–	–	90,945

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

26. OTHER ASSETS (CONT'D.)

31 December 2019	Stage 1	Stage 2	Stage 3					Total MNT'mil
	Other financial assets MNT'mil	Other financial assets MNT'mil	Receivable from DIC MNT'mil	Asset received from Capital bank MNT'mil	Asset received from Anod bank MNT'mil	Receivables from companies MNT'mil	Claims on foreign financial institution MNT'mil	
Gross carrying amount								
At 1 January 2019	3,353	–	193,710	–	60,615	56,352	23,106	339,156
Addition	–	–	425	54,480	–	–	–	54,905
Translation	–	–	–	–	–	1,759	792	2,551
Repayment during the year	(3,353)	–	(45,043)	–	(1,650)	–	–	(50,046)
At 31 December 2019	–	–	149,092	54,480	58,965	58,111	23,898	344,546
Credit allowance								
At 1 January 2019	778	–	115,000	–	60,615	56,352	23,106	255,851
Translations of provisions denominated in foreign currency	–	–	–	–	–	1,759	792	2,551
Credit loss expense/(recovery) during the year (Note 11)	(778)	–	(9,093)	18,696	(1,650)	–	–	7,175
At 31 December 2019	–	–	105,907	18,696	58,965	58,111	23,898	265,577
Net carrying amount	–	–	43,185	35,784	–	–	–	78,969

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

27. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

Cost/valuation	Buildings/ premises MNT'mil	Const- ruction in progress MNT'mil	Office and computer equipment MNT'mil	Subtotal MNT'mil	Intangible assets MNT'mil	Total MNT'mil
At 1 January 2020	87,549	38,495	16,740	142,784	2,603	145,387
Additions*	2,125	29,505	10,592	42,222	1,958	44,180
Reclassification	50,781	(53,925)	–	(3,144)	3,144	–
Disposals	(270)	(11,727)	(2,004)	(14,001)	(118)	(14,119)
Transfer to asset held for sale	(5,277)	–	–	(5,277)	–	(5,277)
Write-offs (Note 15)	–	–	(37)	(37)	–	(37)
At 31 December 2020	134,908	2,348	25,291	162,547	7,587	170,134
Accumulated depreciation/ amortization						
At 1 January 2020	(43,778)	–	(6,845)	(50,624)	(614)	(51,238)
Charge for the year (Note 15)	(1,639)	–	(3,123)	(4,762)	(1,328)	(6,090)
Disposals	254	–	1,991	2,245	118	2,363
Write-offs (Note 15)	–	–	32	32	–	32
At 31 December 2020	(45,163)	–	(7,945)	(53,109)	(1,824)	(54,933)
Net carrying amount	89,745	2,348	17,346	109,438	5,763	115,201
Cost/valuation						
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 (Note 15)	(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 the year (Note 15)	(1,577)	–	(2,673)	(4,250)	(543)	(4,793)
Disposals	–	–	1,431	1,431	352	1,783
Write-offs (Note 15)	793	–	52	845	–	845
At 31 December 2019	(43,778)	–	(6,845)	(50,624)	(614)	(51,238)

*Additions for the year include additions of donated fixed assets with cost of MNT 111 million.

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 income approach. 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. 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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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

At 31 December 2020, the carrying number of premises would have been MNT 59,414 million (2019: MNT 13,440 million) had the assets been carried at cost less depreciation. The amount reconciles to the carrying value of the premises as follows:

	2020 MNT'million	2019 MNT'million
Premises at revalued amount in the statement of financial position	89,745	43,771
Revaluation reserve presented in equity	<u>(30,331)</u>	<u>(30,331)</u>
Premises at cost less accumulated depreciation	<u>59,414</u>	<u>13,440</u>

None of the property, equipment and intangible assets have been pledged as security for borrowings as of 31 December 2020 and 31 December 2019.

28. CASH IN CIRCULATION

	2020 MNT'million	2019 MNT'million
Banknotes issued to circulation	1,151,315	927,051
Uncounted banknotes	(159,867)	(29,655)
Coins issued into circulation	<u>22</u>	<u>21</u>
	<u>991,470</u>	<u>897,417</u>

Cash issued into circulation

	At 31 December 2019 MNT'million	Increase 2020 MNT'million	Decrease 2020 MNT'million	At 31 December 2020 MNT'million
Issued banknotes	927,051	1,879,681	(1,655,417)	1,151,315
Issued coins	21	60	(59)	22
Banknotes transferred from commercial banks*	<u>(29,655)</u>	<u>2,302,890</u>	<u>(2,433,102)</u>	<u>(159,867)</u>
Issued cash	<u>897,417</u>	<u>4,182,631</u>	<u>(4,088,577)</u>	<u>991,470</u>

*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

	2020 MNT'million	2019 MNT'million
Central bank bills payables	<u>7,952,438</u>	<u>4,629,293</u>

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 (2019: 7 days to 184 days) and bear interest rates of 7% - 11% per annum as at 31 December 2020 (2019: 11% per annum).

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

30. LIABILITIES DUE TO GOVERNMENT ORGANIZATIONS

	2020 MNT'million	2019 MNT'million
Current accounts of MOF	1,451,593	1,556,508
Liabilities to the MOF related to borrowings:		
- International Monetary Fund (IMF)	647,687	594,974
- Government of Germany (KfW)	–	16,331
- Asian Development Bank (ADB)	27,936	28,630
- International Development Association (IDA)	4,809	5,142
	2,132,025	2,201,585

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 3.5% per annum as at 31 December 2020. (2019: 4.5% 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 which is expected to be paid within 2028

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 2020, liabilities due to MOF under EFF arrangement were SDR 157.5 million, which is equivalent to MNT 645,616 million (2019: SDR 158 million which is equivalent to MNT 594,794 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. The borrowing has been fully settled during the year (2019: MNT 16,331 million).

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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 the 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

	2020	2019
	MNT'million	MNT'million
Correspondent accounts:		
- in national currency	1,249,089	1,999,419
- in foreign currency	2,316,318	2,415,955
Overnight deposits in national currency	106,515	496,622
Time deposits in foreign currency	199,475	1,126,708
	3,871,397	6,038,704

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. 2.5% per annum as at 31 December 2020 (2019: 4.5% per annum). Interest expense paid to local banks on their fulfillment of mandatory reserve requirement to local banks was amounted to MNT 52,378(2019: MNT 76,035), refer to Note 7.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

31. DEPOSITS FROM LOCAL BANKS (CONT'D.)

Overnight deposits in national currency as at 31 December 2020 represent MNT overnight deposits placed by local banks at an interest rate of 5% per annum with maturity of 4 days (2019: 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 0.19% per annum with initial maturity term of 28 days as at 31 December 2020.

32. LIABILITIES DUE TO FOREIGN PARTIES

	2020 MNT'million	2019 MNT'million
Financing from People's Bank of China	5,332,233	4,785,483
Loan from MUFG Bank Ltd	255,613	–
Allocation of Special Drawing Rights of IMF	200,102	183,945
Current account of World Bank	1,281	33
Subscription to World Bank	179	172
Current account of ADB	61	12
Subscription to IDA	39	39
	5,789,508	4,969,684

Financing from People's Bank of China. This balance represents 7 months to 8 months (2019: 7 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.

Loan from MUFG Bank Ltd. On 12 June 2020, the Bank entered into a facility agreement with MUFG Bank LTD as financier, coordinator bank and agent and Sumitomo Mitsui Banking Corporation, as financier to receive fund of JPY 10,800 million for a purpose to finance local gold companies and to increase the gold supply to BoM where the gold will be refined at Samsung. The interest rate is LIBOR3MJPY+2.5% per annum. The Bank shall fully repay the loan by 31 December 2021 with 7 separate gold shipment to Samsung by using London Bullion Market fix price per ounce. The shipment quantity per contract is designated to be higher than the quantity to close the principal repayment and the remaining will be deposited to the banks account. In circumstances, the Bank deficit the agreed quantity to be shipped, default interest is to be paid on each deficit ounce. In relation to this agreement, the Bank has obliged to pay JPY 47.8 million (MNT 1.26 billion) of refinery fee to Samsung irrecoverably.

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 200,102 million equivalent to SDR 48,757 million (2019: MNT 183,945 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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

33. OTHER LIABILITIES

	2020 MNT'million	2019 MNT'million
Other financial liabilities		
Deposits by non-banking entities	324,941	6,789
Other payables	38,216	23,067
Other liabilities		
Social development fund	2,160	1,533
	<u>365,317</u>	<u>31,389</u>

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

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

34. CHARTER CAPITAL AND OTHER RESERVES

	2020 MNT'million	2019 MNT'million
Charter capital	60,000	60,000

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 2019	4,437	30,331	176,343	924,729	1,135,840
Gain on fair value changes of					
investment securities at FVOCI	67,353	–	–	–	67,353
ECL movement as part of FV change	(651)	–	–	–	(651)
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 and					
1 January 2020	74,972	30,331	572,739	1,061,764	1,739,806
Gain on fair value changes of					
investment securities at FVOCI	91,685	–	–	–	91,685
ECL movement as part of FV change	3,976	–	–	–	3,976
Transfer to profit or loss upon disposal	(3,262)	–	–	–	(3,262)
Revaluation surplus on treasury fund	–	–	–	–	–
Transfer (to)/from accumulated deficit	(4,624)	–	130,681	–	126,057
At 31 December 2020	162,747	30,331	703,420	1,061,764	1,958,262

Revaluation reserve for investment securities at FVOCI. This reserve comprises changes in fair value of investment securities at FVOCI. The ECL movement comprises ECL of government securities at FVOCI and debt securities at FVOCI. During the year ended 31 December 2020, fair value reserve of MIK shares amounting to MNT 4,624 million were transferred to accumulated deficit upon disposal of the investment.

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

35. CONTINGENCIES AND COMMITMENTS

Legal proceedings. Management is not aware of any other legal proceedings as of 31 December 2020, 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:

	2020 MNT'million	2019 MNT'million
Contingent Liabilities		
Import letters of credit	(35,898)	(77,387)
Commitments		
Undrawn credit line of People's Bank of China	(6,000,000)	(5,400,000)
	<u>(6,035,898)</u>	<u>(5,477,387)</u>

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.

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 (2019: CNY 15,000 million) when the Bank is the requesting party and MNT 6,000,000 million (2019: 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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

35. CONTINGENCIES AND COMMITMENTS (CONT'D.)

As at 31 December 2020, the used amount of CNY 12,000 million equal to MNT 5,233,560 million (2019: CNY 12,000 million equal to MNT 4,693,440 million) and the unused amount of CNY 3,000 million equivalent to MNT 1,308,390 million (2019: CNY 3,000 million equivalent to MNT 1,173,360 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 2020, the Bank had commitments of MNT 2,388 million (2019: MNT 15,608 million) relating to the mainly completion of the new building and purchase of new database infrastructure.

36. RELATED PARTY TRANSACTIONS

As of 31 December 2020 and 31 December 2019, 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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

36. RELATED PARTY TRANSACTIONS (CONT'D.)

The outstanding balances and transactions with related parties as of 31 December 2020 and 2019 were as follows:

31 December 2020	Government	State Bank	Development Bank of Mongolia	DIC	Total
	MNT'mil	MNT'mil	MNT'mil	MNT'mil	MNT'mil
Government securities	227,408	–	–	–	227,408
Development Bank securities	–	–	55,650	–	55,650
Reverse repurchase agreement	–	5,028	–	–	5,028
Loans to local banks	–	38,158	–	–	38,158
Loans to non-financial entities	–	–	–	148,958	148,958
Financial derivatives	–	(710)	(52,435)	–	(53,145)
Central bank bills	–	(921,758)	(98,936)	(169,453)	(1,190,147)
Deposits from local banks	–	(184,959)	(40,874)	–	(225,833)
Deposits from non-financial entities	–	–	–	(320,436)	(320,436)
Liabilities due to the government organizations	(2,132,025)	–	–	–	(2,132,025)
Total	(1,904,617)	(1,064,241)	(136,595)	(340,931)	(3,446,384)
Interest income	12,348	4,135	90,512	321	107,316
Interest expense	(31,139)	(62,723)	(73,334)	(31,326)	(198,522)
Commission income	73	2,128	–	–	2,201
Total	(18,718)	(56,460)	17,178	(31,005)	(89,005)

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)
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)

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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****36. RELATED PARTY TRANSACTIONS (CONT'D.)**

Import Letter of Credit Commitments. As of 31 December 2020, the Bank has MNT 35,898 million (2019: MNT 77,387 million) of import letter of credits commitments to related parties. Refer to Note 35 for more information.

Key management compensation is presented below:

	2020 MNT'million	2019 MNT'million
Salary and wages	1,406	1,292
Social and pension fund contribution	207	240
Benefits in-kind	249	191
Other compensation	189	30
	<u>2,051</u>	<u>1,753</u>

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 responsibility 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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

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.

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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****37. FINANCIAL RISK MANAGEMENT (CONT'D.)**

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 2020.

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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****37. FINANCIAL RISK MANAGEMENT (CONT'D.)**

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.

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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****37. FINANCIAL RISK MANAGEMENT (CONT'D.)**

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

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

External credit ratings are mapped on master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding ratings of external international rating agencies	
	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.

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 unlikelihood-to-pay criteria listed below:

Definition of default and determination of staging (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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

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	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.

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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

In 2020, the Bank used recovery rates of corporate entities applicable to each rating and time to maturity generated from Thomson Reuters data terminal for its LGD due to the limited historical data. In 2019, the Bank used LGD foundation approach from Basel Quantitative Impact Study 3.

Loss given default (cont'd.)

The following table shows LGD determined for each financial asset class in 2020 and 2019:

	Due from foreign FI (Note 17)	Investment in debt securities (Note 19)	Reverse repurchase agreement (Note 21)	Government securities (Note 25)	Loans to local banks (Note 18)	Other financial assets (Note 26)
2020	60%	47%-63%	0%-60%	63%	63%	72%
2019	25%	0%-25%	3.9%	15.5%	25%-38%	31%-38%

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 calculates the PD for the allowance for ECL either on a collective or an individual basis based on the nature of the financial assets. 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. Below is the PD base and forward-looking variables the Bank used for the calculation.

- Due from local banks

The Bank uses the historical speculative grade default rates of published by international rating agency (S&P) and macroeconomic factors to come up with a forward-looking probability weighted PD:

- Annual GDP;
- Inflation rate, lagged by one (1) year;
- Loan interest rate; lagged by one (1) year;
- Unemployment rate

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****37. FINANCIAL RISK MANAGEMENT (CONT'D.)**

The Bank has run a linear regression analysis on the annual PD for the last 20 years against those macro-economic variables which are considered as the statistically significant macro-economic factors.

- *Secured loans to local banks*

The Bank uses the historical weakest link default rates published by international rating agency (S&P) and macroeconomic factors to come up with a forward-looking probability weighted PD:

- Annual GDP;
- Inflation rate, lagged by one (1) year;

The Bank has run a linear regression analysis on the annual PD for the last 21 years against those macro-economic variables which are considered as the statistically significant macro-economic factors.

- *Residential mortgage backed securities and Lease backed bonds*

The Bank uses the historical weight of non-performing mortgage loan published by BoM and macroeconomic factors to come up with a forward-looking probability weighted PD:

- Quarterly GDP;

Analysis of inputs to ECL model – forward looking information (cont'd.)

- Non-performing loan %, lagged by one (1) quarter;
- Unemployment rate

The Bank has run a linear regression analysis on the quarterly non-performing mortgage loan loan % (PD) for the last 10 years against those macro-economic variables which are considered as the statistically significant macro-economic factors.

- *Erdenes Bond*

The Bank uses the historical weight of non-performing loan of mining sector published by BoM and macroeconomic factors to come up with a forward-looking probability weighted PD:

- Quarterly GDP, lagged by two (2) quarter;
- Non-performing loan %, lagged by one (1) quarter

The Bank has run a linear regression analysis on the quarterly non-performing mining sector loan % (PD) for the last 10 years against those macro-economic variables which are considered as the statistically significant macro-economic factors.

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 case scenario.

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. Other variables were lagging variables and thus used actual statistics.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

31 December 2020	ECL Scenario	Assigned weightings	Assumption for 2021
Key drivers			
	Best case	30%	8.3%
	Base case	40%	6.4%
GDP growth %	Worst case	30%	4.5%
Unemployment rate	All case	100%	10.8%

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:

PD Base:	Local banks		Secured loan		RMBS*		LASB**		Erdenes bonds	
	S&P default rate				NPL% Mortgage loan		NPL% Residential loan		NPL% Mining loan	
	Multiplier	PD	Multiplier	PD	Multiplier	PD	Multiplier	PD	Multiplier	PD
Best (30%)	0.52	2.76%	0.50	12.39%	1.33	1.95%	1.33	3.90%	0.88	11.55%
Base (40%)	0.60	3.19%	0.57	14.12%	1.34	1.96%	1.34	3.93%	0.89	11.68%
Worst (30%)	0.67	3.56%	0.63	15.61%	1.35	1.98%	1.35	3.96%	0.91	11.94%

*Residential Mortgage Backed Securities

** Lease Asset Backed Securities

Analysis of inputs to ECL model – forward looking information (cont'd.)

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 on Bloomberg terminal. Accordingly, credit allowance for the next 12 months was estimated by provided default rates on each scenario by using same weights as above mentioned financial assets. In 2019, the credit allowance for the next 12 months of above-mentioned assets was estimated on single best scenario.

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

31 December 2020	Investment		Reverse repurchase agreement	Government securities	Loans to local banks	Other financial assets
	Due from foreign FI	in debt securities				
	(Note 17)	(Note 19)	(Note 21)	(Note 25)	(Note 18)	(Note 26)
<i>In MNT'mil</i>						
Best case (30%)	509	11,351	4	1,187	4,934	19,886
Base case (40%)	679	15,134	5	1,583	6,578	26,515
Worst case (30%)	509	11,351	4	1,187	4,934	19,886
Total ECL	1,698	37,835	13	3,958	16,445	66,288
31 December 2019						
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

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

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.

The table below indicates the currencies to which the Bank has significant exposure at the end of the reported period on its monetary balances denominated in currencies other than the functional currency of the Bank and monetary balances denominated in SDRs. The analysis calculated the effect of a reasonably possible movement of the currency rate against the MNT (all other variables being constant) on the income statement and equity.

A negative amount in the table reflects a potential net reduction in the income statement or equity, while positive amount reflects a net potential increase. An equivalent decrease in each of the currencies below against the MNT would have resulted in an equivalent but opposite impact.

Currency	2020			2019		
	Change in currency rate %	Effect on profit before tax MNT'mil	Effect on equity MNT'mil	Change in currency rate %	Effect on profit before tax MNT'mil	Effect on equity MNT'mil
USD	+10	744,093	(108,249)	+10	365,132	(251,478)
CNY	+10	(479,091)	–	+10	(422,174)	–
EUR	+10	(16,504)	–	+10	(1,861)	–
SDR	+10	(71,512)	–	+10	(65,299)	–
Other	+10	157,758	–	+10	328,872	–

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

The table below summarizes the Bank's exposure to foreign exchange risk as at 31 December 2020 and 2019. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies and SDRs.

31 December 2020	MNT MNT'mil	USD MNT'mil	CNY MNT'mil	EUR MNT'mil	SDR MNT'mil	Other MNT'mil	Total MNT'mil
Cash on hand	47	164,131	17,089	37,576	–	14,530	233,373
Due from foreign financial institutions	–	3,225,376	583,672	98,224	131,503	478,617	4,517,392
Loans to local banks	460,576	738	–	–	–	–	461,314
Investments in debt securities	2,924,909	2,306,627	43,593	–	–	–	5,275,129
Investments in equity securities	–	–	–	6,595	–	–	6,595
Reverse repurchase agreements	422,693	4,393,375	–	–	–	–	4,816,068
Gold and precious metals	–	–	–	–	–	1,405,887	1,405,887
Government securities	227,407	–	–	–	–	–	227,407
Other financial assets	373,490	–	–	–	–	–	373,490
Total financial assets	4,409,122	10,090,247	644,354	142,395	131,503	1,899,034	17,316,655
Cash in circulation	(991,470)	–	–	–	–	–	(991,470)
Central bank bills	(7,952,438)	–	–	–	–	–	(7,952,438)
Liabilities due to government organizations	(888,930)	(479,219)	(9)	(94,288)	(646,516)	(23,063)	(2,132,025)
Deposits from local banks	(1,355,604)	(2,156,843)	(103,018)	(213,149)	–	(42,783)	(3,871,397)
Liabilities due to foreign parties	(1,381)	(179)	(5,332,233)	–	(200,102)	(255,613)	(5,789,508)
Other financial liabilities	(350,083)	(13,074)	–	–	–	–	(363,157)
Total financial liabilities	(11,539,906)	(2,649,315)	(5,435,260)	(307,437)	(846,618)	(321,459)	(21,099,995)
Derivative financial instruments	935,403	(1,082,485)	–	–	–	–	(147,082)
Net balance sheet position	(6,195,381)	6,358,447	(4,790,906)	(165,042)	(715,115)	1,577,575	(3,930,422)
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)

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

37.5 Interest rate risk

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.

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 2020							
Total financial assets	12,501,205	254,690	242,614	4,241,192	17,239,701	233,373	17,473,074
Total financial liabilities	(13,409,135)	(313,742)	(5,479,568)	(846,424)	(20,048,869)	(1,354,627)	(21,403,496)
Net interest sensitivity gap at 31 December 2020	(907,930)	(59,052)	(5,236,954)	3,394,768	(2,809,168)	(1,121,254)	(3,930,422)
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)

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 2020, 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 68,325 million lower/higher (2019: MNT 37,991 million), mainly as a result of lower/higher interest expense on variable interest liabilities, primarily loan from People's Bank of China and MUFJ Bank Ltd (2019: People's Bank of China).

Management believes that the Bank's exposure to interest rate risk was not significant in 2020, 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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Below summarises interest rates of financial rates of financial assets and liabilities as at 31 December 2020 and 2019.

In % per.annum	2020				2019				
	MNT	USD	CNY	Other	MNT	USD	EUR	CNY	Other
Assets									
Due from foreign financial institutions	–	0.25%	2.50%	0.01%	–	1.75%	–	2.81%	0.70%
Investments in debt securities	–	1.00%	2.38%	–	–	1.90%	–	3.60%	–
Reverse repurchase agreements	7.00%	–	–	–	12.36%	2.20%	–	–	–
Government securities	1.00%	–	–	–	1.00%	–	–	–	–
Loans to local banks	5.50%	0.75%	–	–	4.33%	0.75%	1.25%	–	–
Liabilities									
Central bank bills	6.75%	–	–	–	11.06%	–	–	–	–
Liabilities due to government organizations	3.50%	–	–	–	–	–	–	–	–
		2.57%		1.08%		2.53%	0.75%		1.00%
Deposits from local banks	5.00%	0.19%	–	–	9.00%	1.78%	–	–	–
Liabilities due to foreign parties	–	–	4.87%	2.50%	–	–	–	5.08%	–

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

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2020 is set out below:

	Mongolia MNT'mil	OECD MNT'mil	IMF MNT'mil	Non-OECD MNT'mil	Total MNT'mil
Assets					
Cash on hand	233,373	–	–	–	233,373
Due from foreign financial institutions	–	3,802,217	131,503	583,672	4,517,392
Loans to local banks	461,314	–	–	–	461,314
Investments in debt securities	2,924,909	2,306,627	–	43,593	5,275,129
Investments in equity securities	6,595	–	–	–	6,595
Reverse repurchase agreements	422,693	4,393,375	–	–	4,816,068
Gold and precious metals	–	1,405,887	–	–	1,405,887
Derivative financial instruments	156,419	–	–	–	156,419
Government securities	227,407	–	–	–	227,407
Other financial asset	373,490	–	–	–	373,490
Total financial assets	4,806,196	11,908,106	131,503	627,265	17,473,074
Liabilities					
Cash in circulation	(991,470)	–	–	–	(991,470)
Central bank bills	(7,952,438)	–	–	–	(7,952,438)
Liabilities due to government organizations	(2,132,025)	–	–	–	(2,132,025)
Deposits from local banks	(3,871,397)	–	–	–	(3,871,397)
Derivative financial instruments	(303,501)	–	–	–	(303,501)
Liabilities due to foreign parties	–	(257,173)	(200,102)	(5,332,233)	(5,789,508)
Other financial liabilities	(363,157)	–	–	–	(363,157)
Total financial liabilities	(15,613,988)	(257,173)	(200,102)	(5,332,233)	(21,403,496)
Net balance sheet position					
as 31 December 2019	(10,807,788)	11,650,933	(68,599)	(4,704,968)	(3,930,422)
Credit related commitments (Note 35)	(35,898)	–	–	(6,000,000)	(6,035,898)

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. Financial risk management (cont'd.)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2019 is set out below:

	Mongolia	OECD	IMF	Non-OECD	Total
	MNT'mil	MNT'mil	MNT'mil	MNT'mil	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)

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 2020 and 31 December 2019.

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:

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020****37. FINANCIAL RISK MANAGEMENT (CONT'D.)**

- 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 2020 and 2019 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.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

Analysis of financial liabilities by contractual maturities at 31 December 2020 and 2019 are as follows:

31 December 2020	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	991,470	–	–	–	991,470
Central bank bills	7,777,935	–	266,799	–	8,044,734
Liabilities due to government organizations	1,483,042	1,339	–	685,731	2,170,112
Deposits from local banks	3,871,477	–	–	–	3,871,477
Liabilities due to foreign parties	300,636	214,249	5,435,870	–	5,950,755
Other financial liabilities	363,157	–	–	–	363,157
<i>Gross settled swaps and forward</i>					
- inflows	(19,153)	(188,867)	(124,978)	(749,486)	(1,082,485)
- outflows	12,751	179,781	96,025	646,846	935,403
<i>Credit related commitments</i>					
-Undrawn credit line to PBC	6,000,000	–	–	–	6,000,000
-Other contingent liabilities	35,898	–	–	–	35,898
Total undiscounted financial liabilities					
and commitments	20,817,212	206,502	5,673,716	583,091	27,280,521
31 December 2019					
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
<i>Gross settled swaps and forward</i>					
- 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)
<i>Credit related commitments</i>					
-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

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

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.

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 2020 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	233,373	–	–	–	233,373
Due from foreign financial institutions	4,517,392	–	–	–	4,517,392
Investments in debt securities	1,981,989	65,429	108,089	3,119,622	5,275,129
Investments in equity securities	–	–	–	6,595	6,595
Reverse repurchase agreements	4,522,516	–	62,314	231,238	4,816,068
Gold and precious metals	1,405,887	–	–	–	1,405,887
Derivative financial instruments	–	90,559	–	65,860	156,419
Government securities	–	–	–	227,407	227,407
Loans to local banks	443	966	51,378	408,527	461,314
Other financial assets	72,978	97,736	20,833	181,943	373,490
Total financial assets	12,734,578	254,690	242,614	4,241,192	17,473,074
Liabilities					
Cash in circulation	(991,470)	–	–	–	(991,470)
Central bank bills	(7,777,935)	–	(174,503)	–	(7,952,438)
Liabilities due to government organizations	(1,452,764)	(1,337)	–	(677,924)	(2,132,025)
Deposits from local banks	(3,871,397)	–	–	–	(3,871,397)
Derivative financial instruments	(6,403)	(99,645)	(28,953)	(168,500)	(303,501)
Liabilities due to foreign parties	(300,636)	(212,760)	(5,276,112)	–	(5,789,508)
Other financial liabilities	(363,157)	–	–	–	(363,157)
Total financial liabilities	(14,763,762)	(356,294)	(5,437,016)	(846,424)	(21,403,496)
Net liquidity gap	(2,029,184)	(101,604)	(5,194,402)	3,394,768	(3,930,422)

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

37. FINANCIAL RISK MANAGEMENT (CONT'D.)

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 2020

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 2020 and 2019 are, as follows:

	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	930,566	–	–	930,566
BIS Bond	898,352	–	–	898,352
-US treasury bills and IBRD	326,604	–	–	326,604
-BIS investment	146,569	–	–	146,569
-KfW bond	30,554	–	–	30,554
-European Investment Bank bond	17,575	–	–	17,575
-Other equity investments	–	–	6,595	6,595
-Gold Bullion and Precious Metals at fair value	1,405,887	–	–	1,405,887
-Government securities	–	227,407	–	227,407
-Promissory notes	–	–	282,545	282,545
Non-financial assets				
-Premises and equipment	–	–	89,745	89,745
-Treasury Fund	–	–	1,071,665	1,071,665
Total assets with recurring fair value measurements	3,756,107	227,407	1,450,550	5,434,064
Financial liabilities at fair value				
Derivative financial assets	–	–	156,419	156,419
Derivative financial liabilities	–	–	(303,501)	(303,501)

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

38. FAIR VALUE MEASUREMENT (CONT'D.)

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 and IBRD	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 MIK	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				
Derivative financial assets	–	–	260,778	260,778
Derivative financial liabilities	–	–	(545,040)	(545,040)

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

	Fair value 2020 MNT'mil	Fair value 2019 MNT'mil	Valuation technique	Inputs used
Assets at fair value				
Financial assets				
-Government securities	227,407	134,028	Discounted Cash Flow	Policy rate as discount rate

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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 2020 and 2019:

	Fair value 2020 MNT'mil	Fair value 2019 MNT'mil	Valuation technique	Inputs used
Assets at fair value				
Financial assets				
-Financial derivatives	156,419	260,778	Discounted Cash Flow	Z-spread, LIBOR 6 month, Repo rate/(policy rate), Forward rate using GAP model
-Promissory notes	282,545	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	89,745	43,771	Market and Cost approach	Comparable market prices, and internal research data of the external valuation company
-Treasury fund	1,071,665	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	(303,501)	(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	1,296,082	1,222,990		

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 2020. 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	
			2020 MNT'mil	2019 MNT'mil
Financial derivative asset	Future MNT/USD spot rate	5%	(63,507)	(94,991)
		-5%	26,981	108,333
Financial derivative liabilities	Future MNT/USD spot rate	5%	(131,238)	(106,360)
		-5%	167,721	93,018
Promissory notes receivables	Discount rate	+100bps	(3,793)	(6,649)
		-100bps	1,124	3,545
Treasury fund	Market price	10%	107,167	106,180
		-10%	(107,167)	(106,180)
Premises	Market price	20%	17,949	8,754
		-20%	(17,949)	(8,754)

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

38. FAIR VALUE MEASUREMENT (CONT'D.)

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

Promissory notes receivables	2020	2019
	MNT'mil	MNT'mil
At 1 January	394,621	748,656
Settlement	(102,575)	(272,500)
Accrued interest, net	18,206	6,989
Fair value losses on promissory notes, net (Note 13)	(27,707)	(88,524)
At 31 December	282,545	394,621

Derivative financial assets and liabilities, net	2020	2019
	MNT'million	MNT'million
At 1 January	(284,262)	(169,053)
Unrealised (losses)/gains on financial derivatives, net (Note 9)	138,813	(136,512)
Interest income, net (Note 6 and 7)	138,271	93,932
Settlement	(139,904)	(72,629)
At 31 December	(147,082)	(284,262)

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 2020 and 31 December 2019.

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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 2020:

	AC MNT'mil	Debt instruments at FVOCI MNT'mil	Equity instruments at FVOCI MNT'mil	FVTPL (mandatory) MNT'mil	Total MNT'mil
FINANCIAL Assets					
Cash and cash equivalents					
-Cash on hand	233,373	–	–	–	233,373
Due from financial institutions					
-Short term deposits in foreign currency	3,507,650	–	–	–	3,507,650
-Demand deposits	878,047	–	–	–	878,047
-Special drawing rights holdings	131,503	–	–	–	131,503
-World Bank subscriptions	179	–	–	–	179
-Other subscriptions	13	–	–	–	13
Loans advances to customers					
- Loans issued under PSP	368,840	–	–	–	368,840
-Secured loan	6,100	–	–	–	6,100
-Other loans	86,374	–	–	–	86,374
Gold and precious metal	–	–	–	1,405,887	1,405,887
Investments in debt securities					
-RAMP Investment Account Assets	–	930,566	–	–	930,566
-US treasury bills	–	326,604	–	–	326,604
-BIS investment	–	146,569	–	–	146,569
-BIS bond	–	898,352	–	–	898,352
-KfW bond	–	30,554	–	–	30,554
- European Investment Bank bond	–	17,575	–	–	17,575
-Senior RMBS Bonds	2,287,410	–	–	–	2,287,410
-Development Bank securities	55,650	–	–	–	55,650
-Erdenes bond	547,155	–	–	–	547,155
-Asset backed securities	34,694	–	–	–	34,694
Investments in equity securities					
-Other equity investments	–	–	6,595	–	6,595
Reverse repurchase agreements					
- Federal Reserve Bank of New York	4,393,375	–	–	–	4,393,375
- Local banks	422,693	–	–	–	422,693
Government securities	–	227,407	–	–	227,407
Derivative financial asset	–	–	–	156,419	156,419
Other financial assets	90,945	–	–	282,545	373,490
TOTAL FINANCIAL ASSETS	13,044,001	2,577,627	6,595	1,844,851	17,473,074

BANK OF MONGOLIA

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020

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 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

As of 31 December 2020 and 2019, 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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

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.

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 2020 is MNT 60,000 million (31 December 2019: 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 2019 and 2020 as the Bank has not been profitable during recent years.

The Bank had loss of MNT 503,378 million in 2020 (2019: loss of MNT 229,879 million) and has net deficiency in assets of MNT 2,309,283 million as at 31 December 2020 (2019: MNT 1,898,304 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.

BANK OF MONGOLIA**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2020**

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 country's economic stability. Management believes that such measures had no impact on the Bank's financial position as at 31 December 2020 and is not aware of any other events that occurred after the end of reporting period which would have impact on these financial statements.

42. 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.

APPENDIX: STATISTICS

6

Amount of current account, time deposit and loans by soum and village in December 2020

in MNT millions

Aimag/City	Soum/Village	Current account		Of which: Individuals		Deposit		Of which: Individuals		Loans		Of which: Individuals	
		Domestic currency	Foreign currency	Domestic currency	Foreign currency	Domestic currency	Foreign currency	Domestic currency	Foreign currency	Domestic currency	Foreign currency	Domestic currency	Foreign currency
Total		3,428,727.2	1,980,821.1	1,561,111.9	4,640,996.7	15,284,340.1	15,124,988.3	1,533,986.8	8,488,087.1				
Western region		112,678.6	2,920.7	90,431.4	13,405.0	695,291.0	783,917.9	2,641.4	722,802.1				
	Total	20,539.2	179.7	17,642.5	5,210.4	139,626.7	159,889.6	-	151,576.9				
	Uliastai	8,320.2	173.4	6,375.3	4,671.7	54,612.6	63,710.2	-	56,047.5				
	Aldarkhaan	588.6	-	578.8	-	1,827.1	5,301.8	-	5,252.0				
	Asgat	139.1	-	134.2	-	1,983.9	1,922.1	-	1,907.1				
	Bayantes	393.1	-	385.4	-	2,384.1	5,450.6	-	5,450.6				
	Bayankhairkhan	434.9	-	427.2	-	2,392.0	2,546.7	-	2,546.7				
	Durvuljin	529.5	0.1	326.7	256.2	4,497.4	4,424.6	-	4,417.9				
	Zavkhanmandal	231.8	0.0	224.5	-	2,696.4	2,155.0	-	2,155.0				
	Ider	431.9	0.0	418.1	-	2,810.9	4,218.1	-	4,218.1				
	Ikhn-Uul	1,093.6	0.0	1,053.4	1.2	7,091.9	5,929.1	-	5,740.5				
	Numrug	353.7	0.0	342.3	0.0	3,749.1	3,840.1	-	3,840.1				
	Olgon	550.7	0.0	536.7	111.5	3,338.2	5,449.7	-	5,449.7				
Zavkhan	Santmargaz	340.4	-	324.1	-	3,825.1	4,052.9	-	4,052.9				
	Songino	443.3	0.0	435.9	-	2,898.9	2,843.2	-	2,843.2				
	Tosontsengel	2,326.4	5.1	2,051.5	58.2	15,329.5	17,984.4	-	17,694.5				
	Tudevtei	332.7	-	321.3	26.8	3,612.6	3,599.2	-	3,599.2				
	Telmen	651.3	0.0	589.1	3.5	3,149.2	4,006.4	-	3,906.4				
	Tes	719.8	0.0	585.2	1.7	5,103.8	5,724.2	-	5,724.2				
	Urgamal	194.0	0.0	189.2	72.7	2,834.7	1,979.8	-	1,979.8				
	Tsagaankhairkhan	314.9	0.1	308.0	0.1	1,871.0	2,431.6	-	2,431.6				
	Tsagaanchuluut	382.0	0.5	371.4	0.2	3,080.9	1,886.5	-	1,886.5				
	Tsetsen-Uul	407.6	0.0	401.5	0.2	2,402.7	3,159.0	-	3,159.0				
	Shituuste	502.5	-	468.8	6.4	2,374.7	2,905.0	-	2,905.0				
	Erdenekhairkhan	401.7	-	339.3	-	3,180.7	1,989.5	-	1,989.5				
	Yaruu	455.6	0.4	454.4	-	2,579.4	2,379.9	-	2,379.9				
Govi-Altai	Total	19,502.2	57.7	16,386.9	477.0	122,464.6	124,537.7	-	116,149.5				
	Yesunbulag	9,224.3	40.5	6,423.3	459.8	53,997.1	53,582.8	-	46,909.9				

Altai	690.9	-	684.5	4,306.9	1.1	4,308.0	16,420.2	-	15,012.4
Bayan-Uul	637.3	0.0	600.9	5,026.8	0.1	5,026.8	2,875.3	-	2,875.3
Biger	842.4	0.0	841.1	4,531.8	0.0	4,531.8	3,251.8	-	3,190.8
Bugat	647.3	0.0	638.0	5,407.2	-	5,407.2	2,700.3	-	2,700.3
Darvi	521.9	0.0	406.8	3,400.4	6.2	3,386.6	2,402.1	-	2,339.4
Delger	759.4	0.0	756.4	4,600.8	0.2	4,600.9	6,016.6	-	6,016.6
Jargalan	480.5	0.0	476.7	3,203.5	-	3,203.5	2,595.8	-	2,595.8
Taishir	332.0	-	324.5	1,053.2	-	1,053.2	2,264.9	-	2,264.9
Tonkhil	566.9	0.2	564.4	8,100.4	0.2	8,100.5	2,492.9	-	2,492.9
Tugrug	471.1	-	449.0	4,433.5	0.7	4,434.2	2,834.5	-	2,834.5
Khalitun	593.2	16.5	592.9	1,860.1	-	1,860.1	2,931.2	-	2,931.2
Khukhmorit	496.8	0.0	479.7	2,511.3	-	2,511.3	3,699.5	-	3,662.5
Tsogt	1,078.8	0.4	1,041.8	5,458.4	8.9	5,467.3	5,452.9	-	5,452.9
Tseel	948.3	0.0	923.7	5,668.1	-	5,668.1	2,889.9	-	2,885.3
Chandmani	409.9	0.0	408.8	3,436.6	0.0	3,436.7	4,129.4	-	3,990.3
Sharga	340.2	-	335.2	2,582.5	0.0	2,582.5	2,614.0	-	2,614.0
Erdene	461.0	0.0	439.4	2,888.8	0.0	2,888.8	5,383.5	-	5,380.5
Total	22,116.6	1,275.5	18,353.4	135,125.6	2,629.5	134,355.4	154,065.9	2,640.4	141,300.9
Ulgii	13,580.3	691.0	10,574.5	91,694.7	2,347.1	90,642.1	107,839.9	2,640.4	95,133.5
Altai	512.7	0.0	495.5	4,527.3	73.5	4,600.8	3,183.5	-	3,183.5
Altantsugts	461.8	0.0	461.7	1,109.1	1.4	1,110.5	2,746.5	-	2,746.5
Bayannuur	651.5	0.0	632.1	3,703.2	1.0	3,704.2	3,063.1	-	3,063.1
Bugat	297.7	583.7	282.9	2,228.7	105.9	2,334.6	3,301.3	-	3,262.8
Bulgan	751.0	-	727.9	7,253.6	-	7,253.6	2,476.2	-	2,476.2
Buyant	282.3	0.0	277.1	1,560.7	-	1,560.7	2,424.0	-	2,424.0
Deluun	1,218.3	0.0	1,200.6	5,439.1	0.4	5,439.5	3,513.7	-	3,513.7
Nogoonnuur	753.3	0.3	745.0	3,365.6	98.8	3,464.4	4,964.7	-	4,964.7
Sagsai	446.2	0.1	432.8	2,589.2	-	2,589.2	5,098.0	-	5,098.0
Tolbo	529.6	-	500.2	2,177.2	0.2	2,177.5	2,911.9	-	2,911.9
Ulaankhus	947.2	-	901.5	4,176.6	0.3	4,176.9	5,043.3	-	5,043.3
Tsagaannuur	213.9	0.0	212.0	2,312.3	0.1	2,312.4	1,911.3	-	1,911.3
Tsengel	1,470.7	0.3	909.5	2,988.3	0.8	2,989.1	5,588.7	-	5,568.5

Bayan-Ulgii

Aimags/City	Total	Current account		Time deposit		Loans		1.0	163,280.0	
		Domestic currency	Foreign currency	Domestic currency	Foreign currency	Domestic currency	Foreign currency			
Khovd	Jargalant	26,954.8	669.2	20,108.8	131,971.5	1,697.3	132,000.2	179,492.4	1.0	95,989.6
	Altai	13,222.7	482.3	10,693.2	60,284.1	1,328.9	79,492.5	111,984.0	1.0	3,641.0
	Bulgan	4,865.2	186.8	1,710.6	28,120.7	310.4	8,883.1	15,816.7	-	15,662.8
	Buyant	530.3	0.0	524.1	2,893.4	-	2,893.4	2,815.4	-	2,815.4
	Darvi	581.8	0.0	526.7	4,383.5	0.8	4,384.3	3,747.8	-	3,747.8
	Duut	327.9	-	312.9	1,732.1	9.1	1,741.2	2,598.2	-	2,598.2
	Durgun	342.3	-	319.1	1,873.9	0.2	1,874.2	3,444.3	-	3,444.3
	Zereg	582.9	-	539.7	3,469.6	0.0	3,469.7	3,307.4	-	3,307.4
	Mankhan	591.5	0.0	569.8	2,979.7	3.9	2,983.6	4,974.9	-	4,921.7
	Munkhkhairkhan	452.4	0.0	429.6	1,862.7	0.0	1,862.7	2,783.9	-	2,783.9
	Must	767.4	0.0	727.3	3,456.5	0.0	3,456.5	2,870.3	-	2,866.4
	Myangad	566.9	0.0	556.9	1,716.0	0.7	1,716.8	2,996.2	-	2,996.2
	Uyench	715.6	0.0	696.5	4,037.0	38.7	4,075.8	6,402.1	-	6,399.7
	Khovd	437.9	-	431.7	2,796.2	0.0	2,796.2	2,513.8	-	2,513.8
Uvs	Tsetseeg	1,533.1	-	693.2	3,208.1	1.9	3,210.0	3,378.5	-	3,378.5
	Chandmani	533.4	0.1	506.7	2,059.9	-	2,059.9	3,749.9	-	3,749.9
	Erdeneburen	406.4	0.0	388.6	1,507.1	-	1,507.1	2,466.0	-	2,463.3
	Total	23,565.8	738.6	17,939.9	168,933.5	3,390.8	166,844.0	165,932.2	-	150,494.7
	Ulaangom	13,247.4	737.8	8,809.9	101,593.3	3,302.3	99,426.8	93,204.4	-	79,320.9
	Baruunturuun	1,334.7	0.1	668.7	4,323.4	1.2	4,324.6	6,934.3	-	5,459.3
	Bukhmurun	425.0	-	395.5	3,192.5	0.0	3,192.5	3,616.6	-	3,616.6
	Davst	249.5	-	235.3	1,805.6	-	1,805.6	3,054.0	-	3,054.0
	Zavkhan	252.9	0.0	241.2	2,930.8	-	2,930.8	3,411.8	-	3,411.8
	Zuungovi	621.4	-	585.3	2,528.5	0.0	2,528.6	4,576.5	-	4,576.5
	Zuunkhangai	639.6	0.1	569.7	6,897.0	0.1	6,885.7	3,125.0	-	3,125.0
	Malchin	463.7	-	461.3	2,797.7	0.0	2,797.7	2,707.7	-	2,707.7
	Naranbulag	597.0	-	570.0	3,555.9	0.0	3,556.0	5,279.8	-	5,250.2
	Ulgii	360.0	0.0	356.2	2,063.3	0.3	2,063.6	3,125.9	-	3,125.9

	Umnugovi	658.3	-	613.4	4,910.4	1.5	4,911.9	5,897.4	-	5,897.4
	Undurkhangai	686.0	-	658.6	4,829.0	0.1	4,829.1	4,946.5	-	4,946.5
	Sagil	509.3	0.0	434.8	1,988.9	-	1,988.9	3,359.0	-	3,359.0
	Tarialan	657.0	0.0	612.8	5,329.5	-	5,329.5	2,943.0	-	2,921.0
	Turgen	323.9	-	279.0	1,515.2	0.1	1,515.3	2,215.0	-	2,215.0
	Tes	1,012.5	-	997.7	5,172.4	-	5,172.4	7,314.8	-	7,314.8
	Khovd	359.7	0.0	350.7	3,432.5	6.7	3,439.2	3,510.4	-	3,483.0
	Khyargas	586.8	0.0	544.8	4,906.8	78.4	4,985.2	3,377.3	-	3,377.3
	Tsagaankhairkhan	581.1	0.7	554.8	5,160.7	-	5,160.7	3,332.7	-	3,332.7
Khangai region	Total	197,153.0	27,595.2	158,321.1	1,124,509.4	64,810.6	1,153,536.3	1,226,185.6	69.9	1,126,650.9
Orkhon	Bayan-Undur	50,854.0	26,308.5	41,072.1	328,951.6	53,221.1	355,457.9	321,848.1	56.9	272,259.9
	Jargalant	649.5	0.1	633.0	2,703.7	4.0	2,692.7	4,210.4	-	4,209.4
	Total	36,361.0	218.0	27,419.0	190,822.9	2,956.1	191,288.8	205,620.3	6.6	189,531.7
	Arvaikheer	15,391.7	182.4	9,415.9	83,871.2	793.9	83,538.3	110,879.5	4.2	95,562.9
	Baruunbayan-Ulaan	564.5	-	547.7	3,897.1	-	3,897.1	3,088.0	-	3,088.0
	Bat-Ulzii	2,141.3	1.1	2,015.9	14,241.6	244.3	14,485.8	11,455.8	-	11,353.0
	Bayangol	851.4	0.0	842.8	4,351.1	0.0	4,351.1	3,418.0	-	3,418.0
	Bayan-Undur	1,000.6	-	933.5	5,921.6	3.6	5,925.1	2,814.3	-	2,814.3
	Bogd	1,020.9	0.4	996.7	5,470.0	22.6	5,492.6	5,616.7	-	5,616.7
	Burd	703.4	-	669.0	5,049.1	0.0	5,049.1	3,426.4	-	3,426.4
	Guchin-Uis	505.8	0.1	492.3	2,954.0	1.0	2,955.0	2,426.1	-	2,426.1
Uvurkhangai	Yesun zuil	535.4	-	525.6	1,958.5	4.2	1,962.7	2,599.7	2.4	2,602.2
	Zaunbayan-Ulaan	906.9	0.7	901.8	2,191.2	0.7	2,191.9	3,221.8	-	3,221.8
	Nariinteel	996.2	-	781.6	4,795.8	0.9	3,546.1	4,236.2	-	4,236.2
	Ulzit	426.9	-	424.4	2,140.6	45.1	2,185.7	2,356.9	-	2,356.9
	Sant	617.9	0.1	593.6	3,912.3	37.4	3,949.7	3,397.5	-	3,397.5
	Taragt	473.7	0.0	464.6	1,232.5	0.0	1,232.5	2,284.4	-	2,284.4
	Tugrug	489.7	0.2	480.9	2,424.0	20.8	2,444.8	3,102.0	-	3,102.0
	Uyanga	2,543.3	0.0	2,226.4	12,869.7	5.1	12,874.8	8,269.7	-	8,269.7
	Khairkhandulaan	808.3	2.8	806.3	3,458.9	0.0	3,458.9	3,536.3	-	3,536.3

	Kharkhorin	3,436.8	30.0	2,816.7	21,689.5	1,768.2	23,440.7	21,367.0	-	20,718.7
	Khujirt	2,946.3	0.1	1,483.2	8,394.4	8.3	8,306.9	8,124.0	-	8,100.6
	Total	15,735.7	243.2	13,822.9	78,441.2	552.2	78,835.6	117,735.8	-	110,577.5
	Bulgan	5,337.8	174.7	4,059.1	27,419.4	400.9	27,682.5	40,061.3	-	34,467.6
	Bayan-Agf	671.2	2.8	661.4	3,170.4	11.3	3,181.7	5,444.8	-	5,332.0
	Bayannuur	473.2	0.3	471.4	1,517.6	-	1,507.6	4,408.8	-	4,408.8
	Bugat	373.2	-	334.2	1,961.4	0.0	1,961.4	2,636.9	-	2,476.9
	Buregkhangai	715.8	0.0	653.5	3,460.6	23.7	3,484.3	5,045.4	-	5,045.4
	Gurvanbulag	544.6	0.2	530.7	4,295.6	3.4	4,289.0	4,755.0	-	4,735.4
	Dashinchilen	451.8	0.0	435.4	3,926.4	18.0	3,944.3	5,858.2	-	5,796.7
	Mogod	715.0	-	713.7	5,889.0	-	5,889.0	3,807.6	-	3,807.6
	Rashaant	653.1	0.0	611.3	3,917.6	1.4	3,919.0	6,768.6	-	6,688.6
	Saikhan	691.2	0.0	671.0	4,917.5	55.7	4,973.2	4,399.5	-	4,389.5
	Selenge	907.6	0.0	779.7	2,001.8	0.1	2,001.9	4,936.7	-	4,892.4
	Teshig	728.2	-	654.1	2,295.9	2.9	2,298.7	4,965.6	-	4,821.6
	Khangal	1,180.1	1.9	1,173.5	3,677.3	3.2	3,680.5	7,052.6	-	6,833.3
	Khishig-Undur	684.1	59.3	555.6	3,362.2	10.6	3,372.8	4,703.5	-	4,681.5
	Khutag-Undur	1,127.5	3.8	1,044.9	4,843.2	21.1	4,864.3	8,832.1	-	8,249.9
	Orkhon	481.4	0.0	473.5	1,785.2	-	1,785.2	4,059.0	-	3,950.2
	Total	26,663.5	298.8	21,384.2	157,022.4	2,578.3	156,805.1	204,081.6	-	194,154.8
	Bayankhongor	10,212.8	251.6	6,303.3	66,512.5	2,324.1	66,084.5	115,558.8	-	105,850.8
	Baatsagaan	1,082.9	-	977.9	4,212.1	-	4,212.1	5,112.6	-	5,112.6
	Bayanbulag	515.5	0.0	468.5	3,439.6	5.0	3,444.4	3,270.3	-	3,270.3
	Bayangovi	550.9	0.0	534.3	2,645.2	1.6	2,646.8	4,657.8	-	4,657.8
	Bayanlig	710.0	-	558.6	6,510.8	37.9	6,548.7	6,211.8	-	6,211.8
	Bayan-Ovoo	478.5	-	377.6	853.7	0.0	853.8	3,095.3	-	3,095.3
	Bayan-Undur	349.3	0.0	333.1	6,649.1	0.0	6,649.1	3,309.8	-	3,309.8
	Buyantsagaan	671.4	1.1	652.0	6,128.0	7.3	6,135.3	4,750.4	-	4,750.4
	Bogd	602.0	0.0	519.8	4,294.0	4.2	4,255.5	4,368.3	-	4,366.2
	Bumbugur	657.4	34.3	579.3	4,554.4	0.2	4,554.6	6,740.6	-	6,740.6
	Buutsagaan	687.9	0.0	660.7	5,276.3	0.0	5,276.3	6,970.8	-	6,970.8
	Galut	817.2	8.8	811.6	3,342.5	0.0	3,342.5	6,187.0	-	6,168.1
	Bayankhongor									

Aimags/City	Sotum/Village	Current account		Of which: Individuals		Time deposit		Loans		Of which: Individuals
		Domestic currency	Foreign currency	Domestic currency	Foreign currency	Domestic currency	Foreign currency			
								Domestic currency	Foreign currency	
Gurvanbulag		610.7	0.0	599.2	4,616.6	0.4	4,617.0	4,504.8	-	4,504.8
Jargalant		4,439.3	1.9	4,085.6	17,999.7	162.0	18,161.7	3,806.8	-	3,806.8
Jinst		673.1	0.0	555.2	1,797.7	-	1,797.1	3,658.5	-	3,498.7
Zag		506.0	-	496.1	3,192.0	-	3,192.0	3,725.5	-	3,707.0
Ulziit		588.3	0.0	576.5	2,898.7	0.2	2,898.9	4,986.2	-	4,986.2
Khuremaral		515.3	0.0	491.8	3,382.4	1.3	3,383.7	3,486.8	-	3,467.2
Shargaljuut		362.3	-	358.9	1,417.9	0.0	1,417.9	1,159.8	-	1,159.8
Shinejinst		557.5	1.0	422.3	4,490.8	33.8	4,524.6	3,162.8	-	3,162.8
Erdenetsogt		1,075.2	0.0	1,021.9	2,808.4	0.1	2,808.5	5,357.0	-	5,357.0
Total		29,510.8	92.1	25,371.8	165,857.8	1,526.3	166,467.5	151,955.2	-	146,663.1
Erdenebulgan		12,413.8	44.4	8,630.3	76,827.9	1,401.4	77,312.8	55,810.2	-	51,412.2
Battsengel		762.9	-	757.9	5,808.6	18.3	5,826.9	6,107.7	-	6,107.7
Jargalant		1,232.9	0.0	1,186.1	5,945.6	2.9	5,948.5	4,083.7	-	4,064.8
Ikhtamir		1,141.1	30.8	1,140.5	4,155.5	60.8	4,216.3	5,864.6	-	5,781.4
Uginuur		461.3	0.0	437.7	2,950.8	0.6	2,951.4	5,169.8	-	5,157.1
Ulziit		744.4	10.7	730.8	5,864.5	0.6	5,865.0	6,982.6	-	6,982.6
Undur-Ulaan		1,513.3	-	1,498.9	6,059.3	0.2	6,059.5	4,650.4	-	4,650.4
Tariat		1,475.0	0.0	1,437.6	5,401.3	0.5	5,401.9	6,757.8	-	6,528.7
Tuvshruulekh		730.8	0.0	727.7	2,971.2	18.0	2,989.2	5,372.9	-	5,170.4
Khairkhan		807.4	0.0	764.5	6,723.7	0.4	6,724.1	6,507.4	-	6,507.4
Khangai		601.4	-	594.4	3,564.2	-	3,564.2	3,209.8	-	3,209.8
Khashaat		671.9	-	667.3	3,848.2	-	3,848.2	4,270.0	-	4,270.0
Khotont		1,128.7	0.0	1,115.0	5,095.4	0.8	5,096.2	6,996.8	-	6,924.7
Tsakhir		718.7	-	690.3	4,099.0	-	4,099.0	3,077.5	-	3,077.5
Tsenkher		1,257.1	0.0	1,192.1	4,708.4	0.3	4,708.7	7,045.5	-	6,849.6
Tsetserleg		890.8	-	867.8	5,957.4	-	5,957.4	4,714.3	-	4,714.3
Chuluut		1,026.0	0.2	1,003.5	4,089.0	21.2	4,110.2	3,220.8	-	3,220.8
Erdenemandal		1,072.6	-	1,063.0	9,023.4	0.4	9,023.8	7,665.9	-	7,586.2
Bulgan		860.7	5.8	866.3	2,764.3	-	2,764.3	4,447.3	-	4,447.3

Arkhangai

	37,378.6	434.5	28,618.1	200,709.7	3,972.8	201,988.6	220,734.1	6.4	209,254.4
Total	37,378.6	434.5	28,618.1	200,709.7	3,972.8	201,988.6	220,734.1	6.4	209,254.4
Murun	18,593.6	412.8	12,202.4	111,808.8	3,645.8	112,760.7	103,028.5	6.4	95,310.3
Alag-Erdene	629.6	-	596.7	2,424.0	0.2	2,424.2	4,461.8	-	4,461.8
Arbulag	720.9	2.8	704.8	2,095.5	-	2,095.5	5,078.3	-	5,078.3
Bayanzurkh	593.7	0.1	587.2	3,794.9	0.0	3,795.0	5,998.2	-	5,979.3
Burentogtokh	1,037.5	0.9	1,034.1	2,961.8	0.0	2,961.8	5,450.8	-	5,450.8
Galt	1,183.1	1.2	1,156.8	6,652.2	5.5	6,657.7	6,820.9	-	6,820.9
Jargalant	898.5	0.1	719.0	6,719.3	0.1	6,719.4	5,516.9	-	5,511.5
Ikh-Uul	1,120.9	0.4	1,039.3	4,494.1	0.1	4,494.2	6,419.0	-	6,379.0
Rashaant	1,240.8	0.0	763.1	4,651.0	88.0	4,739.0	5,277.6	-	4,637.6
Renchimkhumbe	732.6	0.0	657.8	4,699.1	72.3	4,771.4	4,269.6	-	4,266.0
Tarialan	1,778.6	0.6	1,059.2	6,004.3	43.9	6,048.3	11,119.7	-	8,888.3
Tosotsengel	705.3	0.0	623.1	3,984.8	-	3,984.8	5,537.2	-	5,537.2
Tumurbulag	591.7	0.0	578.2	3,040.0	0.0	3,040.0	5,551.8	-	5,551.8
Tunel	601.6	0.0	591.9	2,251.6	-	2,251.6	5,697.4	-	5,697.4
Ulaan-Uul	791.3	0.1	745.1	3,638.4	-	3,638.4	4,899.7	-	4,899.7
Khankh	435.5	0.0	426.7	2,004.9	-	2,004.9	4,913.5	-	4,913.5
Khatgal	716.3	13.8	625.3	3,314.4	0.7	3,315.1	4,627.2	-	4,519.2
Tsagaanuur	417.6	1.0	412.5	1,903.7	0.8	1,904.5	2,729.6	-	2,714.8
Tsagaan-Uul	1,261.6	0.0	1,161.0	6,710.5	2.5	6,713.0	5,495.0	-	5,495.0
Tsagaan-Uur	450.1	0.4	446.5	2,404.6	3.6	2,408.3	2,618.1	-	2,618.1
Tsetserleg	966.9	0.0	843.9	4,385.5	65.7	4,451.2	5,237.7	-	5,237.7
Chandmani-Undur	468.7	0.0	458.3	2,179.5	0.4	2,180.0	3,062.2	-	3,061.3
Shine-Ider	843.9	-	606.2	3,952.0	-	3,952.0	2,976.1	-	2,976.1
Erdenebulgan	598.3	0.1	578.9	4,634.6	43.1	4,677.6	3,947.3	-	3,248.9
Total	233,317.1	158,293.4	171,021.8	1,125,283.7	44,562.3	1,130,259.6	1,414,570.1	3,333.8	1,280,704.4
Central region	31,103.9	1,107.5	25,845.4	127,432.2	1,408.0	128,604.0	191,950.6	14.6	183,609.9
Zuunmod	9,624.7	923.1	6,473.5	42,513.2	862.0	43,324.6	65,054.0	-	57,539.9
Altanbulag	1,007.5	0.0	941.1	2,760.8	13.3	2,774.1	6,258.3	-	6,258.3
Argalant	453.2	-	344.6	1,921.0	0.5	1,921.5	2,626.9	-	2,566.9
Arkhuut	643.2	0.0	315.7	1,616.4	3.5	1,619.9	2,377.1	-	2,377.1
Batsumber	2,075.5	0.1	1,496.4	3,632.5	16.4	3,648.9	6,546.6	-	6,522.8
Bayan	445.1	0.0	443.2	2,295.3	0.0	2,295.3	5,411.7	-	5,411.7
Bayan-Unjuiul	525.5	95.4	484.1	3,434.5	151.8	3,586.3	4,589.9	-	4,589.9
Tuv									

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	Domestic currency	Foreign currency			
Govisumber	Bayandelger	361.5	-	357.0	1,293.5	59.9	1,353.4	1,486.9	14.6	1,501.5		
	Bayanjargalan	348.3	19.3	358.0	3,005.2	131.6	3,136.7	2,156.3	-	2,156.3		
	Bayankhangai	440.0	0.1	400.2	1,040.1	0.3	1,040.5	3,170.7	-	3,170.7		
	Bayantsagaan	517.2	-	511.5	2,592.2	0.4	2,592.6	3,711.3	-	3,711.3		
	Bayantsogt	772.8	0.0	581.2	2,466.1	-	2,466.1	3,326.0	-	3,326.0		
	Bayanchandmani	856.0	0.1	837.5	3,865.7	6.5	3,872.2	5,987.0	-	5,987.0		
	Bornuur	1,083.7	0.1	1,022.6	4,113.1	1.1	4,114.2	6,617.7	-	6,592.8		
	Buren	699.4	2.6	701.4	4,224.2	15.1	4,239.3	5,884.1	-	5,884.1		
	Delgerkhaan	324.8	0.0	324.5	2,248.0	-	2,248.0	4,136.6	-	4,136.6		
	Zaamar	2,684.9	64.7	2,719.8	14,578.1	37.2	14,429.6	7,916.6	-	7,916.6		
	Jargalant	1,308.7	0.0	1,193.7	7,024.4	66.6	7,091.0	18,284.1	-	18,205.1		
	Lun	583.1	0.4	551.0	3,203.8	28.8	3,232.6	4,678.9	-	4,678.9		
	Mungunmorit	1,293.7	0.0	1,284.1	2,021.2	0.0	2,021.2	2,567.3	-	2,567.3		
	Undurshireet	434.7	0.0	428.8	2,071.3	0.0	2,071.3	4,533.2	-	4,533.2		
	Sergelen	158.4	0.0	158.1	469.2	-	469.2	3,087.8	-	3,087.8		
	Sumber	488.6	0.0	473.3	1,256.1	0.1	1,256.1	2,561.5	-	2,561.5		
	Ugtaal	775.1	0.0	650.3	2,181.8	5.8	2,187.6	5,417.9	-	4,913.8		
Tseel	1,025.3	0.0	986.1	3,836.0	0.1	3,836.0	4,311.2	-	4,191.7			
Erdene	1,067.0	1.4	1,020.8	2,331.8	6.8	2,338.7	2,272.5	-	2,272.5			
Erdenesant	1,106.0	0.0	786.7	5,436.9	0.2	5,437.1	6,978.8	-	6,948.8			
Total	7,850.6	53.0	4,943.5	28,584.1	194.4	28,355.8	61,153.9	61,153.9	-	56,634.3		
Selenge	Sumber	6,846.6	50.3	4,122.7	24,926.7	192.4	24,696.4	49,263.4	-	44,846.3		
	Bayantal	158.4	0.0	151.5	1,105.5	0.6	1,106.1	3,161.2	-	3,161.2		
	Shiveegovi	845.6	2.6	669.2	2,551.9	1.4	2,553.3	8,729.2	-	8,626.8		
	Total	44,804.5	9,495.5	36,975.0	154,017.2	3,538.7	156,335.4	263,085.3	263,085.3	451.7	241,321.6	
Selenge	Sukhbaatar	11,585.7	9,061.9	7,873.6	44,072.8	2,100.2	46,097.2	85,439.9	451.2	74,333.0		
	Altanbulag	1,388.2	33.7	1,374.6	5,596.3	35.6	5,631.9	6,117.3	-	5,581.2		
	Baruunburen	890.0	0.1	737.4	2,763.8	0.6	2,764.5	4,071.1	-	3,991.1		
	Bayangol	2,063.4	23.9	1,747.8	6,622.9	119.0	6,741.9	9,805.1	-	9,185.5		

Yeruu	2,920.7	0.7	2,461.9	9,921.3	76.2	9,997.5	14,847.0	-	12,986.9
Javkhlaant	750.3	0.1	653.7	1,221.0	0.0	1,221.0	3,348.6	-	3,348.6
Zuunburen	739.2	0.0	732.8	3,059.6	5.3	3,064.8	2,995.1	-	2,948.0
Mandal	13,629.2	120.2	11,746.6	44,103.0	751.9	44,849.4	73,212.2	-	69,989.2
Orkhon	462.9	-	421.2	903.6	2.3	905.8	3,240.9	-	2,878.2
Orkhontuul	1,262.6	0.1	1,219.1	3,639.1	0.5	3,639.6	6,810.4	-	6,781.4
Sant	571.6	0.0	559.7	1,442.2	0.4	1,442.6	5,731.4	-	5,731.4
Saikhan	3,937.6	251.8	3,323.8	15,325.7	386.2	15,711.3	22,375.1	-	19,311.9
Tushig	540.7	0.1	536.3	1,257.0	3.2	1,260.2	2,666.2	-	2,666.2
Tsagaannuur	1,442.0	0.1	1,192.1	6,836.1	40.6	5,738.0	6,445.2	-	5,833.6
Khushaat	743.8	0.5	597.2	1,808.7	0.1	1,808.8	2,968.3	-	2,768.3
Khuder	873.5	0.0	854.3	2,374.1	0.1	2,374.1	4,094.2	-	4,069.1
Shaamar	1,002.7	2.3	942.7	3,070.2	16.6	3,086.9	8,917.4	0.5	8,917.9
Total	29,229.6	1,228.5	22,726.0	148,888.6	6,241.5	146,495.3	253,678.3	2,836.7	240,017.9
Saimshand	12,963.8	770.7	7,976.8	56,686.5	2,003.4	56,475.1	104,222.1	2,834.8	95,497.1
Airag	858.7	5.9	808.1	3,524.0	1.9	3,525.8	6,584.5	-	6,584.5
Altanshiree	311.0	0.0	301.7	1,187.1	0.0	1,187.1	2,521.3	-	2,521.3
Dalanjargalan	845.4	60.6	867.5	4,448.8	5.4	4,454.2	8,089.0	-	8,033.9
Delgerekh	592.6	0.2	560.5	1,295.2	0.4	1,295.6	4,727.1	-	4,727.1
Zamiin-Uud	8,766.1	355.1	7,798.4	62,174.5	4,106.2	59,860.7	94,351.4	1.8	89,515.0
Ikhkhet	722.8	27.6	682.2	2,533.7	1.8	2,535.5	5,567.6	-	5,523.6
Mandakh	540.7	0.0	526.3	2,382.5	0.3	2,382.8	2,907.3	-	2,907.3
Urgun	504.1	0.3	496.3	2,109.9	85.3	2,195.2	5,310.8	-	5,310.8
Saikhandulaan	397.0	-	395.2	1,164.5	0.1	1,164.6	2,740.8	-	2,740.8
Ulaanbadrakh	437.0	0.0	420.4	2,284.4	0.1	2,284.5	2,764.6	-	2,764.6
Khatanbulag	1,224.6	1.6	944.1	4,785.2	25.0	4,810.2	5,812.3	-	5,812.3
Khuvs gul	375.8	6.2	373.7	1,954.8	6.1	1,960.9	3,304.5	-	3,304.5
Erdene	689.9	0.2	574.8	2,357.7	5.6	2,363.3	4,775.1	-	4,775.1
Total	46,261.5	1,924.6	33,334.1	346,152.7	22,087.8	361,071.6	277,947.1	25.5	225,549.8
Darkhan-Uul									
Darkhan	40,817.2	1,920.0	29,506.8	325,652.0	21,555.3	340,704.5	254,632.1	25.5	202,889.5
Khongor	1,416.6	1.7	1,343.8	4,751.5	56.9	4,808.4	7,966.4	-	7,387.6

Dornogovi**Darkhan-Uul**

Sharin gol	3,532.8	2.8	2,029.4	13,576.2	472.2	13,382.3	11,057.4	-	11,057.4
Orkhon	494.8	0.0	454.1	2,173.0	3.4	2,176.5	4,291.1	-	4,215.3
Total	60,239.7	144,375.3	34,827.8	232,707.3	10,587.6	221,508.1	254,606.4	5.2	229,385.2
Dalanzadgad	34,331.1	74,934.7	17,236.3	130,071.1	6,838.1	115,300.3	98,703.6	3.6	79,848.3
Bayandalai	491.8	0.0	430.4	2,409.6	0.2	2,409.7	4,314.7	-	4,265.6
Bayan-Ovoo	526.0	0.2	499.1	3,333.9	8.0	3,342.0	3,074.0	-	3,074.0
Bulgan	623.8	1.0	547.9	3,094.1	14.1	3,108.2	3,324.4	-	3,324.4
Gurvantes	5,014.3	67,859.8	2,693.2	19,113.3	490.5	19,603.9	9,910.1	-	9,896.1
Mianlai	872.8	10.5	822.2	7,481.2	4.2	7,485.5	3,257.9	-	3,257.9
Mandal-Ovoo	611.7	3.3	551.4	2,350.0	0.5	2,350.5	3,773.3	-	3,557.0
Nongon	695.6	0.1	572.4	4,558.3	0.6	4,558.9	4,792.4	-	4,792.4
Noyon	468.3	0.4	404.6	2,888.2	26.7	2,912.4	2,937.5	-	2,937.5
Sevrei	690.5	0.5	600.8	5,076.0	5.8	5,081.9	2,776.7	-	2,776.7
Khanbogd	5,927.8	677.0	4,751.2	23,936.6	1,862.0	25,789.4	63,200.1	-	62,709.5
Khankhongor	560.8	-	559.2	1,347.7	0.7	1,271.5	2,732.8	-	2,732.8
Khurmen	616.0	40.1	480.4	1,529.9	0.1	1,530.0	3,386.0	-	3,386.0
Tsogt-Ovoo	478.6	0.0	377.3	2,909.1	8.1	2,917.3	3,324.3	-	3,324.3
Tsogtsetsii	8,330.7	847.7	4,301.4	22,608.1	1,327.9	23,846.6	45,098.6	1.7	39,502.6
Total	13,827.4	109.1	12,370.0	87,501.6	504.1	87,889.5	112,148.5	-	104,185.7
Saintsagaan	6,179.3	86.5	5,092.7	42,750.1	453.3	43,087.1	50,154.4	-	43,085.5
Adaatsag	589.2	0.0	554.4	2,324.0	-	2,324.0	5,795.0	-	5,723.4
Bayanjargalan	330.6	0.0	307.1	1,927.3	0.5	1,927.8	3,391.2	-	3,391.2
Govii-Ugtaal	445.9	0.0	438.5	4,337.4	0.0	4,337.4	3,238.9	-	3,071.3
Gurvansaikhan	765.1	0.3	746.1	3,601.5	-	3,601.5	4,189.5	-	4,178.3
Delgerkhantai	329.6	0.1	302.2	2,260.3	0.2	2,260.5	4,564.0	-	4,564.0
Delgertsogt	429.4	0.0	404.9	1,778.8	0.1	1,778.9	2,911.2	-	2,903.5
Deren	498.5	-	465.7	2,949.6	0.6	2,950.2	4,316.4	-	4,316.4
Luus	519.0	0.0	415.8	3,665.9	-	3,665.9	3,475.7	-	3,226.2
Ulziit	559.9	0.0	558.4	2,650.4	-	2,650.4	6,289.1	-	6,287.7
Undurshil	456.0	0.0	440.7	4,547.4	12.7	4,560.1	3,832.6	-	3,709.6
Saikhan-Ovoo	501.6	1.5	491.0	2,805.9	0.5	2,806.4	3,542.6	-	3,383.6

Umnugovi

Dundgovi

Aimags/City	Soum/Village	Current account		Of which: Individuals		Time deposit		Loans		Of which: Individuals	
		Domestic currency	Foreign currency	Domestic currency	Foreign currency	Domestic currency	Foreign currency	Domestic currency	Foreign currency		
Eastern region	Khuld	564.9	0.0	545.0	4,430.8	0.0	4,430.9	4,747.7	-	4,747.7	
	Tsagaan-delger	208.2	0.0	189.0	1,374.7	19.0	1,393.7	3,019.4	-	3,001.9	
	Erdenedalai	1,450.0	20.5	1,418.6	6,097.6	17.2	6,114.8	8,680.8	-	8,595.5	
	Total	73,238.3	6,408.6	56,470.9	369,164.3	41,527.9	377,883.4	504,173.2	27.0	469,155.3	
	Dornod	Total	29,154.2	4,645.5	21,095.8	137,223.3	7,924.5	143,349.2	203,050.6	26.2	181,926.5
		Kherlen	21,911.7	4,617.4	14,354.7	108,266.3	7,785.7	114,254.9	147,066.3	26.2	126,034.0
		Bayandun	772.0	0.0	647.3	3,241.6	0.8	3,242.4	5,760.5	-	5,760.5
		Bayan-Uul	750.3	0.0	629.8	2,650.8	4.2	2,653.5	6,439.1	-	6,439.1
		Bayantumen	210.5	0.0	177.8	1,391.4	3.3	1,394.7	1,968.1	-	1,968.1
		Bulgan	384.0	-	373.6	1,173.8	34.8	1,208.6	3,130.6	-	3,082.8
Gurvanzagal		473.4	-	464.2	1,455.8	0.0	1,455.8	3,367.9	-	3,367.9	
Dashbalbar		661.1	0.7	613.3	4,025.1	0.9	4,026.0	6,441.5	-	6,441.5	
Matad		670.7	14.6	659.9	2,539.3	26.6	2,565.9	3,309.2	-	3,309.2	
Sergelen		561.8	-	551.6	1,865.9	-	1,865.9	3,688.0	-	3,688.0	
Sukhbaatar	Khalkhol	794.8	12.7	741.1	2,197.1	26.9	2,224.0	5,510.5	-	5,507.5	
	Khulunbuir	285.8	0.0	269.9	1,558.7	0.1	1,558.8	2,937.4	-	2,907.4	
	Tsagaan-Ovoo	613.4	0.0	568.2	3,532.4	0.0	3,532.4	6,207.2	-	6,207.2	
	Choibalsan	521.7	0.0	507.2	1,985.2	11.8	1,997.0	3,578.0	-	3,567.1	
	Chuluunkhoroht	542.9	0.0	537.2	1,339.9	29.4	1,369.2	3,646.1	-	3,646.1	
	Total	21,451.1	1,277.1	16,228.0	98,911.7	29,641.9	98,268.5	134,495.0	-	127,695.0	
	Baruun-Urt	11,385.5	622.5	6,685.0	37,527.5	15,876.5	38,577.0	54,022.6	-	50,065.4	
	Asgat	682.3	0.0	665.6	4,047.9	114.0	4,161.9	4,017.6	-	4,001.6	
	Bayandelger	1,058.0	3.7	1,035.3	7,374.5	1,994.9	9,369.3	7,344.2	-	7,302.7	
	Dariganga	855.3	0.2	814.6	4,863.8	0.7	4,864.5	3,539.0	-	3,539.0	
Munkhkhaan	829.2	0.1	814.5	4,509.9	11.7	4,521.6	7,768.7	-	7,768.7		
Naran	434.3	0.0	418.8	2,997.7	23.2	3,020.9	2,217.0	-	2,217.0		
Ongon	913.2	55.4	907.9	4,996.1	17.5	5,013.6	6,464.7	-	6,418.6		
Sukhbaatar	1,774.8	586.6	1,474.6	15,594.2	11,459.0	11,595.2	21,948.2	-	19,336.2		
Tuvshinshree	547.9	0.0	543.2	2,402.0	9.6	2,411.6	5,392.4	-	5,392.4		

Tumentsogt	614.3	0.1	593.3	3,792.2	1.2	3,793.4	3,189.3	-	3,137.0
Uulbayan	473.7	-	454.2	2,243.2	2.1	2,245.3	4,546.5	-	4,546.5
Khalzan	490.7	-	486.7	2,480.5	-	2,480.5	2,426.5	-	2,426.5
Erdenetsagaan	1,392.0	8.4	1,334.4	6,082.3	131.5	6,213.8	11,618.2	-	11,543.4
Total	22,633.0	486.1	19,147.1	133,029.3	3,961.4	136,265.7	166,627.7	0.7	159,533.8
Kherlen	8,280.9	65.8	6,274.0	57,392.0	2,768.2	59,497.6	65,344.7	0.7	59,796.0
Bamrov	602.3	0.0	586.5	4,063.9	86.4	4,150.3	7,471.7	-	7,471.7
Batshireet	814.3	0.1	788.9	3,583.0	0.1	3,583.1	2,505.6	-	2,455.6
Bayan-Adargana	716.4	-	543.6	2,683.3	0.0	2,683.3	3,336.0	-	3,202.5
Bayanmunkh	293.9	0.3	287.7	2,700.0	-	2,700.0	2,862.5	-	2,862.5
Bayan-Ovoo	414.8	0.0	376.3	2,497.7	0.0	2,497.8	4,345.5	-	4,345.5
Binder	1,905.7	0.0	1,332.4	5,934.5	9.3	5,943.7	4,273.8	-	4,080.8
Galsnar	385.2	0.0	372.3	1,568.7	0.2	1,568.9	3,994.5	-	3,994.5
Gurvanbayan	475.5	0.2	404.9	1,411.0	0.6	1,411.7	1,960.6	-	1,890.6
Dadal	446.5	0.1	433.9	5,491.1	14.5	5,505.6	4,486.3	-	4,486.3
Darkhan	346.7	0.0	310.4	4,610.2	103.5	4,713.6	3,560.3	-	3,560.3
Bor-Undur	3,089.3	409.4	2,836.1	16,395.9	735.4	17,068.8	29,258.2	-	28,192.1
Delgerkhaan	465.1	1.4	431.0	2,295.7	0.1	2,295.8	4,549.7	-	4,549.7
Jargalkhaan	467.8	0.0	464.1	2,858.5	1.0	2,859.5	3,317.4	-	3,284.6
Murun	517.5	0.0	507.0	877.1	0.0	877.1	3,421.9	-	3,421.9
Norovjin	633.8	0.2	467.3	4,401.3	69.7	4,471.0	4,282.6	-	4,282.6
Umnudelger	1,257.5	5.0	1,248.7	5,444.1	0.5	5,444.6	8,301.5	-	8,301.5
Berkh	639.9	3.5	626.7	5,591.6	26.2	5,617.8	1,743.3	-	1,743.3
Tsenkhermandal	478.7	0.1	457.5	1,848.5	145.5	1,993.9	4,085.4	-	4,085.4
Bayankhutag	330.8	0.0	329.1	950.6	0.4	951.0	3,526.3	-	3,526.3
Ulziit	70.4	-	68.8	430.7	-	430.7	-	-	-
Total of aumags	616,387.0	195,217.9	476,245.2	3,313,444.2	164,305.8	3,356,970.3	3,928,846.8	6,071.9	3,599,312.6
Ulaanbaatar	2,812,340.2	1,785,603.2	1,084,866.7	9,900,845.4	4,476,691.0	11,927,369.8	11,196,141.5	1,527,914.9	4,888,774.5

Khentii

