

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

Audited Financial Statements
31 December 2022



Building a better
working world

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Audited financial statements

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TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

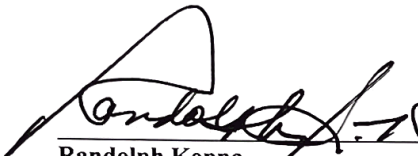
General information

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement by chairman and executives

We, Randolph Koppa, being the Chairman of the Board of Directors of Trade and Development Bank of Mongolia LLC (the "Bank"), Orkhon Onon, being the Chief Executive Officer, and Enkhtuya Dulamjav, being the Chief Financial Officer, primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").



Randolph Koppa
Chairman of the Board of Directors



Orkhon Onon
Chief Executive Officer



Enkhtuya Dulamjav
Chief Financial Officer

Ulaanbaatar, Mongolia

Date: 15 March 2023

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Trade and Development Bank of Mongolia LLC

Opinion

We have audited the financial statements of Trade and Development Bank of Mongolia LLC (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTD.)

To the shareholders of Trade and Development Bank of Mongolia LLC

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

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

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

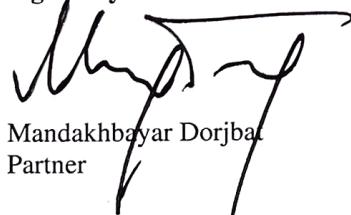
Other Matter

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



Ernst & Young Mongolia Audit LLC
ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by



Mandakhbayar Dorjbal
Partner

Ulaanbaatar, Mongolia
Date: 15 March 2023

Approved by



Adrian Chu
Partner

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
Interest income calculated using the effective interest method	4	642,747,024	570,786,451
Other interest and similar income	4	31,331,028	26,321,014
Interest and similar expense	5	(354,478,116)	(405,636,562)
Net interest income		<u>319,599,936</u>	<u>191,470,903</u>
Fee and commission income	6	77,961,275	65,236,995
Fee and commission expense	6	(27,512,673)	(20,800,855)
Net fee and commission income		<u>50,448,602</u>	<u>44,436,140</u>
Trading and other operating income/(expense)	7	13,924,925	(13,405,598)
Total operating income		<u>383,973,463</u>	<u>222,501,445</u>
Credit loss reversal	8	28,297,839	57,705,549
Net operating income		<u>412,271,302</u>	<u>280,206,994</u>
Operating expenses	9	(172,790,891)	(130,938,563)
Share of profit/(loss) of an associate	15	418,388	(28,728,932)
Profit before tax		<u>239,898,799</u>	<u>120,539,499</u>
Income tax expense	10.1	(45,650,106)	(15,729,066)
Profit for the year		<u><u>194,248,693</u></u>	<u><u>104,810,433</u></u>
Earnings per share (MNT)			
Basic and diluted earnings per share	11	4,041	2,180
Other comprehensive income/(loss) (net of tax):			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income	30	(16,130,824)	(1,266,566)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Revaluation (loss)/gain on equity instruments at fair value through other comprehensive income	30	14,779,163	(18,633,681)
Revaluation of property and equipment	30	-	14,843,570
Other comprehensive loss		<u>(1,351,661)</u>	<u>(5,056,677)</u>
Total comprehensive income for the year, net of tax		<u><u>192,897,032</u></u>	<u><u>99,753,756</u></u>

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of financial position

At 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
ASSETS			
Cash and balances with Bank of Mongolia	12	1,756,207,294	976,352,237
Due from other banks and financial institutions	13	767,067,640	504,417,550
Financial assets at fair value through profit or loss	14	266,017,128	199,870,221
Debt instruments at fair value through other comprehensive income	14	1,079,812,762	1,754,434,647
Equity instruments at fair value through other comprehensive income	14	73,528,478	57,662,947
Debt instruments at amortised cost	14	250,553,216	590,679,288
Investment in associate	15	924,685	506,297
Derivative financial instruments	16	265,374,431	101,647,498
Loans and advances to customers	17	4,137,182,398	4,588,465,405
Other assets	18	465,950,560	200,051,593
Investment property	19	79,997,754	79,902,629
Assets held for sale	20	24,665,717	3,605,964
Property and equipment	21	470,625,143	480,838,433
Right-of-use assets	22	15,449,135	7,902,693
Intangible assets	23	1,421,361	2,334,413
TOTAL ASSETS		9,654,777,702	9,548,671,815
LIABILITIES			
Due to banks and other financial institutions	24	33,120,234	13,938,713
Repurchase agreements	25	316,804,791	289,792,528
Due to customers	26	6,207,309,405	6,266,310,519
Derivative financial instruments	16	166,203,537	78,035,961
Borrowed funds	27	1,418,831,195	1,408,740,129
Debt securities issued	28	–	160,140,274
Other liabilities	29	260,483,585	289,069,965
Lease liabilities	22	15,869,783	8,999,663
Income tax liabilities	10.2	55,742,118	12,499,999
Deferred tax liabilities	10.3	2,401,790	1,035,344
TOTAL LIABILITIES		8,476,766,438	8,528,563,095
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	30	323,810,329	323,809,925
Share premium	30	664	–
Other reserves	30	258,908,980	210,143,332
Retained earnings		595,291,291	486,155,463
TOTAL EQUITY		1,178,011,264	1,020,108,720
TOTAL LIABILITIES AND EQUITY		9,654,777,702	9,548,671,815

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of changes in equity

For the year ended 31 December 2022

	Share capital MNT'000 (Note 30)	Share premium MNT'000 (Note 30)	Other reserves MNT'000 (Note 30)	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2021	72,723,171	251,086,754	220,381,635	386,162,134	930,353,694
Profit for the year	–	–	–	104,810,433	104,810,433
Other comprehensive income	–	–	(5,056,677)	–	(5,056,677)
Total comprehensive income	–	–	(5,056,677)	104,810,433	99,753,756
Realised revaluation reserve	–	–	(32,613,320)	32,613,320	–
Dividend (Note 30)	–	–	–	(9,998,730)	(9,998,730)
Movement on regulatory reserve*	–	–	27,431,694	(27,431,694)	–
Increase in ordinary shares	251,086,754	(251,086,754)	–	–	–
At 31 December 2021 and 1 January 2022	323,809,925	–	210,143,332	486,155,463	1,020,108,720
Profit for the year	–	–	–	194,248,693	194,248,693
Other comprehensive income	–	–	(1,351,661)	–	(1,351,661)
Total comprehensive income	–	–	(1,351,661)	194,248,693	192,897,032
Realised revaluation reserve	–	–	(5,537,618)	5,537,618	–
Dividend (Note 30)	–	–	–	(34,995,556)	(34,995,556)
Movement on regulatory reserve*	–	–	55,654,927	(55,654,927)	–
Increase in ordinary shares	404	664	–	–	1,068
At 31 December 2022	323,810,329	664	258,908,980	595,291,291	1,178,011,264

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

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of cash flows

For the year ended 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		239,898,799	120,539,499
<i>Adjustments for:</i>			
Changes in fair value of financial derivatives	7	(97,805,076)	(21,067,389)
(Gain)/Loss on disposal of property and equipment	7	133,393	(10,997,768)
(Gain)/Loss on disposal of assets-held-for sale, net	7	102,101	(3,391,791)
Valuation gain on investment property	7	(95,125)	(433,617)
(Gain)/Loss on disposal of foreclosed properties, net	7	4,541,099	(204,152)
Gain on disposal of investment properties	7	–	(6,063,066)
Gain on partial disposal of investment in associate	7	–	(5,434,794)
Net modification loss from project mortgage loans	7	7,781,905	6,754,302
(Gain)/Loss on disposal of debt instrument measured at FVOCI	7	(125,429)	509,109
Impairment of foreclosed properties	7	–	27,650,688
Modification loss on other loans receivables	7	13,861,532	17,805,897
Loss on initial recognition of equity investment measured at FVOCI	7	–	14,508,803
Write-off of foreclosed properties	7	–	2,123,116
Loss from revaluation of properties	7	–	1,745,195
Amortisation of deferred grant	7	(232,737)	–
Share of (profit)/loss in associate	15	(418,388)	28,728,932
Credit loss reversal	8	(28,297,839)	(57,705,549)
Depreciation of property and equipment	9	13,182,054	13,653,950
Amortisation of intangible assets	9	1,644,302	2,373,456
Depreciation of rights-of-use assets	9	5,345,669	5,128,494
Property and equipment written off	9	7,225,692	154,371
Intangible assets written off	9	1,685	–
Interest expense of borrowed funds	5	93,256,863	116,374,067
Interest expense of debt securities issued	5	6,326,356	12,800,000
Accretion of interest on lease liabilities	5	990,130	1,219,631
Unrealised foreign exchange differences of borrowed funds		97,002,614	(151,362)
Operating profit before working capital changes		364,319,600	266,620,022
Changes in operating assets and liabilities:			
Statutory deposits with BoM		(142,511,368)	(124,050,688)
Due from other banks and financial institutions		(29,676,880)	(15,513,234)
Loans and advances to customers		483,985,686	(501,093,613)
Assets-held-for sale		(24,334,203)	3,873,960
Other assets		(307,584,159)	(61,028,385)
Due to banks		19,181,521	(89,007,431)
Repurchase agreements		27,012,263	65,504,912
Due to customers		(59,001,114)	954,892,336
Other liabilities		(27,500,688)	(348,300,156)
Cash generated from operations		303,890,658	151,897,723
Interest portion of the lease liabilities paid		(990,130)	(1,219,631)
Interest paid on borrowed funds		(84,192,165)	(105,600,240)
Interest paid on debt securities issued		(6,466,630)	(12,800,000)
Net cash flows generated from operating activities		212,241,733	32,277,852

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of cash flows (contd.)

For the year ended 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial investments		(787,212,627)	(1,422,590,074)
Proceeds from disposal of financial investments		1,236,504,531	930,207,988
Proceeds from/(Payment for) gold prepayment agreement		34,144,815	(14,244,000)
Proceeds from disposal of property and equipment		8,792,270	15,976,615
Purchase of property and equipment	21	(20,231,695)	(25,018,146)
Proceeds on disposal of investment properties		–	10,305,493
Purchase of intangible assets	23	(732,935)	(333,455)
Net cash flows (used in)/generated from investing activities		<u>471,264,359</u>	<u>(505,695,579)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from drawdown of borrowed funds		750,952,149	1,096,949,851
Repayment of borrowed funds		(845,690,067)	(255,441,498)
Payment of deferred upfront fees		(1,238,328)	(2,127,043)
Dividend paid	30	(33,841,116)	(9,998,730)
Repayment of debt securities		(160,000,000)	–
Proceeds from grant received	29	561,938	–
Proceeds from issuance of shares	30	1,068	–
Payment of principal portion of lease liabilities		(5,975,936)	(5,230,452)
Net cash flows (used in)/generated from financing activities		<u>(295,230,292)</u>	<u>824,152,128</u>
Net increase in cash and cash equivalents		388,275,800	350,734,401
Cash and cash equivalents brought forward	12	1,727,107,692	1,376,373,291
Cash and cash equivalents carried forward	12	<u>2,115,383,492</u>	<u>1,727,107,692</u>
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(363,844,513)	(412,379,234)
Interest received		805,020,573	646,982,797
NON-CASH ACTIVITIES			
Additions to right-of-use assets and lease liabilities	22	13,267,832	2,636,768
Modification of leases	22	156,856	575,218
Foreclosure of collaterals		26,583,542	20,404,728
Additions to property and equipment		–	34,069,935
Consideration for disposal of property and equipment		–	33,789,205
Consideration for disposal of investment property		–	16,655,777
Reconciliation of changes in liabilities arising from financing activities:			
		2022	2021
Lease liabilities		MNT'000	MNT'000
At 1 January		8,999,663	11,384,522
Non-cash additions		13,267,832	2,636,768
Lease modification		156,856	575,218
Termination of lease		(578,632)	(366,393)
Interest expense during the year		990,130	1,219,631
Interest portion of the lease liabilities paid		(990,130)	(1,219,631)
Principal portion of lease liabilities paid		(5,975,936)	(5,230,452)
At 31 December		<u>15,869,783</u>	<u>8,999,663</u>

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Statement of cash flows (contd.)

For the year ended 31 December 2022

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

	Borrowed funds MNT'000	Debt securities issued MNT'000
At 1 January 2021	558,736,354	160,140,274
New disbursement	1,096,949,851	–
Repayment	(255,441,498)	–
Interest repayment	(105,600,240)	(12,800,000)
Deferred upfront fee	(2,127,043)	–
Net repayment	<u>733,781,070</u>	<u>(12,800,000)</u>
Foreign exchange movement	(151,362)	–
Non-cash items arising from financing activities	<u>(151,362)</u>	–
Interest expense accrued and deferral amortisation	116,374,067	12,800,000
At 31 December 2021 and 1 January 2022	<u>1,408,740,129</u>	<u>160,140,274</u>
New disbursement	750,952,149	–
Repayment	(845,690,067)	(160,000,000)
Interest repayment	(84,192,165)	(6,466,630)
Deferred upfront fee	(1,238,328)	–
Net repayment	<u>(180,168,411)</u>	<u>(166,466,630)</u>
Foreign exchange movement	97,002,614	–
Non-cash items arising from financing activities	<u>97,002,614</u>	–
Interest expense accrued and deferral amortisation	93,256,863	6,326,356
At 31 December 2022	<u>1,418,831,195</u>	<u>–</u>

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

1. Corporate information

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

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

As at 31 December 2022, the Bank is 64.00% owned by Globull Investment and Development PTE Ltd (“Globull”), which is incorporated in Singapore. Globull is 92.20% owned by US Global Investment LLC (incorporated in the United States of America) and 7.80% owned by Mr. Erdenebileg Doljin. (See Note 30 for the shareholders of the Bank and percentage of ownership). US Global Investment LLC is wholly owned by Mr. Erdenebileg Doljin.

The financial statements for the year ended 31 December 2022 were authorised for issue in accordance with the resolution of the board of directors on 15 March 2023.

2. Significant accounting policies

2.1 Basis of preparation and statement of compliance

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

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

2.2 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity based on the Bank’s intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 36.

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

2.3 Standards issued but not yet effective

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

- | | |
|---|--|
| • IFRS 17 | <i>Insurance Contracts¹</i> |
| • Amendments to IFRS 17 | <i>Insurance Contracts¹</i> |
| • Amendments to IAS 1 | <i>Classification of Liabilities as Current or Non-current²</i> |
| • Amendments to IAS 8 | <i>Definition of Accounting Estimates¹</i> |
| • Amendments to IAS 1 and IFRS Practice Statement 2 | <i>Disclosure of Accounting Policies¹</i> |
| • Amendments to IAS 12 | <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> |
| • Amendments to IFRS 16 | <i>Lease Liability in a Sale and Leaseback²</i> |
| • Amendments to IAS 1 | <i>Non-current Liabilities with Covenants²</i> |
| • Amendments to IFRS 10 and IAS 28 | <i>Sale or Contribution of Assets between an investor and its Associate or Joint Venture³</i> |

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

²Effective for annual periods beginning on or after 1 January 2024

³No mandatory effective date yet determined but available for adoption

2.3 Standards issued but not yet effective (contd.)

IFRS 17 – Insurance contracts

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

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

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

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

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

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

Amendments to IFRS 17 Insurance Contracts

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

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The amendments have no impact on the Bank's financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Bank.

2.3 Standards issued but not yet effective (contd.)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

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

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

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Bank's financial statements.

Non-current liabilities with Covenants – Amendments to IAS 1

In October 2022, the IASB issued the 2022 Amendments to IAS 1 to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. The Bank is currently assessing the impact of the amendments and whether existing loan agreements may require revision.

Sale or Contribution of Assets between an investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. No mandatory effective date yet determined for the amendments, but available for adoption.

2.4 New and amended standards and interpretations

The Bank has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective in these financial statements.

2.4 New and amended standards and interpretations (contd.)

Other amendments and interpretations apply for the first time in 2022, but do not have an impact on the Bank's financial statements, these standards are summarised below:

- | | |
|------------------------|--|
| • Amendments to IFRS 3 | <i>Reference to the Conceptual Framework</i> |
| • Amendments to IAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended use</i> |
| • Amendments to IFRS 1 | <i>First-time Adoption of International Financial Reporting Standards-Subsidiary as a first-time adopter</i> |
| • Amendments to IAS 37 | <i>Onerous Contracts – Costs of Fulfilling a Contract</i> |
| • Amendments to IFRS 9 | <i>Fees in the '10 Per cent' Test for Derecognition of Financial liabilities</i> |
| • IAS 41 Agriculture | <i>Taxation in fair value measurements</i> |

2.5 Summary of significant accounting policies

Foreign currency translation

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

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

Recognition of interest income

The effective interest rate method

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

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

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

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

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

Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the statement of profit or loss for both interest income and interest expense to provide symmetrical and comparable information. In its interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out above.

2.5 Summary of significant accounting policies (contd.)

Recognition of interest income (contd.)

Interest and similar income/expense (contd.)

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

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

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

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

Fees and commission income

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

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

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

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

Fee income from providing transaction services

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

Fee income forming an integral part of the corresponding financial instrument

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

Fees and commission expense

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

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

Net trading income

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

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

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

2.5 Summary of significant accounting policies (contd.)

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

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

Financial instruments – initial recognition

Date of recognition

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

Initial measurement of financial instruments

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

'Day 1' profit or loss

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

Measurement categories of financial assets and liabilities

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

- Amortised cost
- FVOCI
- FVTPL

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

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

Determination of fair value

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

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

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

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

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

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

2.5 Summary of significant accounting policies (contd.)

Determination of fair value (contd.)

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

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

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

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

An analysis of fair values of financial instruments and further details as how they are measured are provided in Note 34.

Financial assets and liabilities per financial statement line

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

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

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

The details of these conditions are outlined below.

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

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

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

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

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

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

2.5 Summary of significant accounting policies (contd.)

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

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

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

Derivatives recorded at fair value through profit or loss

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

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

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

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

Financial assets or financial liabilities held for trading

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

Debt instruments at FVOCI

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

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

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

The expected credit loss (“ECL”) calculation for debt instruments at FVOCI is explained in Note 33. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

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

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

2.5 Summary of significant accounting policies (contd.)

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

Borrowed funds and debt securities issued

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

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

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

Financial assets and liabilities at FVTPL

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

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

Financial guarantee, letter of credit and undrawn loan commitments

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

Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance as set out in Note 32.

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

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL are disclosed in Note 32.

Due to customers

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

Due to banks

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

2.5 Summary of significant accounting policies (contd.)

Reclassification of financial assets

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

Modification of financial assets and liabilities

Modification of financial assets

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

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

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

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

Modification of financial liabilities

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

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

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

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

Derecognition other than for substantial modification

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

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

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

2.5 Summary of significant accounting policies (contd.)

Derecognition of financial assets and liabilities (contd.)

Derecognition other than for substantial modification (contd.)

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

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

A transfer only qualifies for derecognition if either:

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

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

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

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

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

Forborne modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

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

If modifications are substantial, the loan is derecognised, as explained above. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

2.5 Summary of significant accounting policies (contd.)

Forborne modified loans (contd.)

When the loan has been renegotiated or modified but not derecognised, the Bank considers that there has been a significant increase in credit risk since initial recognition and thus classifies the loan as Stage 2. Once an asset has been classified as forborne, it reclassified out of the forborne category, the customer has to meet all of the following criteria:

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

Details of forborne assets are disclosed in Note 33.

Impairment of financial assets

Overview of the ECL principles

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or "LTECL"), unless there has been no significant increase in credit risk ("SICR") since origination, in which case, the allowance is based on the 12 months expected credit loss ("12mECL"). The Bank's policies for determining if there has been a SICR are set out in Note 33.

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

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

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

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

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

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

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

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

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

Calculation of ECL

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

2.5 Summary of significant accounting policies (contd.)

Impairment of financial assets (contd.)

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

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

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

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

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

The mechanics of the ECL method are summarised below:

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

2.5 Summary of significant accounting policies (contd.)

Impairment of financial assets (contd.)

Debt instruments measured at FVOCI

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

Credit cards and other revolving facilities

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

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

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

Forward looking information

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

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

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

Credit enhancements: Collateral valuation and financial guarantees

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

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

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

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

Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL.

2.5 Summary of significant accounting policies (contd.)

Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Foreclosed properties

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

Precious metals

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

Write-offs

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

Investment in associate

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

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

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

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

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

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

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

2.5 Summary of significant accounting policies (contd.)

Cash and bank balances

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

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

Repurchase and reverse repurchase agreements

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

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

Leases

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

Bank as a lessee

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

Right-of-use assets

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

Lease liabilities

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

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

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

2.5 Summary of significant accounting policies (contd.)

Leases (contd.)

Short-term leases

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

Determining the lease term of contracts with renewal options

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

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

Property and equipment

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

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

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

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

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

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

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

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

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

2.5 Summary of significant accounting policies (contd.)

Intangible assets

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

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

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

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

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

Investment property

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

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

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

Non-current assets held for sale

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

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

Impairment of non-financial assets

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

2.5 Summary of significant accounting policies (contd.)

Impairment of non-financial assets (contd.)

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

Employee benefits

Short term benefits

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

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

Defined contribution plans

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

Provisions

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

Segment reporting

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

Taxes

Current tax

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

Deferred tax

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

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

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

2.5 Summary of significant accounting policies (contd.)

Taxes (contd.)

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

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

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

Equity

Share capital

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

Share premium

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

Retained earnings

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

Asset revaluation reserve

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

Regulatory reserve

Regulatory reserve mainly represents a difference between impairment provision determined for loan loss and impairment of foreclosed assets in accordance with the regulations of BoM and impairment provision determined under IFRS. This reserve represents a part of other reserve and is distributable to shareholder of the Bank subject to BoM's approval.

Fair value reserves

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

Earnings per share

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

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

2.5 Summary of significant accounting policies (contd.)

Transactions with related parties

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

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

- has control or joint control of the Bank;
- has significant influence over the Bank; or
- is a member of the key management personnel of the Bank or of a parent of the Bank.

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

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

All material transactions and balances with the related parties are disclosed in the relevant notes to financial statements and the detail is presented in Note 35.

3. Significant accounting judgments, estimates and assumptions

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

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

Impairment losses on financial assets

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

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

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

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

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

Fair value of derivative financial instruments

When the fair value of derivative financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions could affect the reported fair value of derivative financial instruments. See Note 34 for further disclosures.

Revaluation of properties

The Bank carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. In addition, the Bank measures its land and buildings at revalued amounts, with changes in fair value being recognised in OCI. The Bank engages an independent valuation specialist to assess fair value of both investment properties and the land and buildings. Properties were valued principally by reference to market-based evidence, using comparable prices and income approaches adjusted for specific market factors such as nature, location and condition of the buildings. The Bank engaged an independent valuation specialist to assess fair values as at 31 December 2022 for the investment properties and as at 31 December 2021 for land and buildings.

This valuation assessment requires exercise of judgment from management and independent valuer based on their experience of those properties as well as other assumptions described in Note 34.

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

The Bank considers that it has significant influence over MIK even though it owns less than 20% of the voting rights. This is because the Bank is one of the largest shareholders of MIK with a 10% equity interest (effective interest of 13.58%) while majority of the other shareholders hold less than 10% equity interest. Additionally, certain related parties of the Bank hold around 31.82% (effective interest of 43.21%) equity interest in MIK, thus the voting power of the Bank together with its related parties are larger than that of any other shareholder of MIK. Furthermore, the Bank enters into material transactions with MIK throughout the year on regular basis. Although these transactions are entered into during ordinary course of business, the volume and amount are considered material.

4. Interest and similar income

	2022	2021
	MNT'000	MNT'000
<i>Interest income calculated using the effective interest method</i>		
Loans and advances to customers	475,595,163	379,891,417
Debt instrument at FVOCI	79,036,606	76,877,070
Debt instrument at amortised cost	65,525,281	105,874,414
Cash and balances with BoM	13,062,605	5,018,183
Due from banks and financial institutions	8,711,102	2,346,939
Reverse repurchase agreements	816,267	778,428
	642,747,024	570,786,451
<i>Other interest and similar income</i>		
Financial assets at FVTPL	19,544,616	14,754,616
Loans and advances to customers measured at FVTPL	11,786,412	11,566,398
	31,331,028	26,321,014

In 2022, interest income from debt instruments at amortised cost and FVOCI includes interest income from government bonds amounting to MNT 63,598,005 thousand and MNT 3,342,958 thousand, respectively (2021: MNT 105,874,414 and MNT 1,097,905 thousand respectively) which are tax exempt incomes.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

5. Interest and similar expenses

	2022	2021
	MNT'000	MNT'000
Due to customers	227,586,554	257,645,983
Borrowed funds	93,256,863	116,374,067
Repurchase agreements	19,796,976	15,057,398
Debt securities issued	6,326,356	12,800,000
Due to banks and financial institutions	6,521,237	2,539,483
Lease liabilities (Note 22)	990,130	1,219,631
	354,478,116	405,636,562

6. Net fees and commission income

	2022	2021
	MNT'000	MNT'000
<i>Fees and commission income from providing financial services at a point in time:</i>		
Card service	34,325,781	26,654,212
Wire transfer	16,846,301	13,229,064
Loan related service	4,831,542	7,455,936
Mobile and internet-banking service	6,356,065	4,596,024
Others	2,857,941	2,345,760
	65,217,630	54,280,996
<i>Fee income earned from services that are provided over time</i>		
Financial guarantee	9,871,697	9,222,144
Card service	2,871,948	1,733,855
	12,743,645	10,955,999
<i>Fees and commission expenses</i>		
Card service charges	22,960,261	16,719,066
Others	4,552,412	4,081,789
	27,512,673	20,800,855
Net fees and commission income	50,448,602	44,436,140

7. Trading and other operating income/(expenses)

	2022	2021
	MNT'000	MNT'000
Unrealised gain on fair valuation of derivatives	97,805,076	21,067,389
Precious metal trading gain, net	6,053,482	1,253,189
Amortisation of deferred grant (Note 29)	232,737	-
Gain/(loss) of fair value of financial investments at FVOCI	125,429	(509,109)
Valuation gain on investment property (Note 19)	95,125	433,617
Foreign exchange gain/(loss), net	(65,052,424)	19,776,375
Modification loss on other loans receivables (Note 18)	(13,861,532)	(17,805,897)
Net swap interest expense	(8,464,794)	(15,381,806)
Net modification loss from project mortgage loans (Note 17)	(7,781,905)	(6,754,302)
Gain/(loss) on disposal of foreclosed properties, net	(4,541,099)	204,152
Gain/(loss) on disposal of asset-held-for sale, net	(102,101)	3,391,791
Gain/(loss) on disposal of property and equipment, net	(133,393)	10,997,768
Gain on disposal of investment property	-	6,063,066
Gain on partial disposal of investment in associate, net (Note 15)	-	5,434,794
Impairment of foreclosed properties	-	(27,650,688)
Loss on initial recognition of equity investment	-	(14,508,803)
Write-off of foreclosed properties	-	(2,123,116)
Revaluation loss on property and equipment (Note 21)	-	(1,745,195)
Others	9,550,324	4,451,177
	13,924,925	(13,405,598)

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

8. Credit loss expense reversal

	2022	2021
	MNT'000	MNT'000
Loans and advances to customers (Note 17)	(40,484,584)	(65,509,851)
Other assets (Note 18)	14,566,431	17,082,876
Credit commitment (Note 32)	(2,380,577)	(9,248,189)
Debt instrument measured at amortised cost (Note 14)	(278,876)	(385,577)
Debt instrument measured at FVOCI (Note 14)	226,875	331,301
Due from other banks and financial institutions (Note 13)	349	(1,805)
Balances with BoM (Note 12)	52,543	25,696
	(28,297,839)	(57,705,549)

9. Operating expenses

	2022	2021
	MNT'000	MNT'000
Personnel expense	77,025,204	56,426,251
Advertising and public relations	14,778,631	8,914,953
Depreciation on property and equipment (Note 21)	13,182,054	13,653,950
Insurance	7,473,497	7,806,738
Write-off of property and equipment (Note 21)	7,225,692	154,371
Professional services fee	7,153,613	5,885,907
IT maintenance	5,686,303	5,498,594
Depreciation of right-of-use assets (Note 22)	5,345,669	5,128,494
Technical assistance and foreign bank remittance fee	4,179,474	4,774,133
Stationery and supplies	4,040,166	2,008,763
Communication	3,184,130	2,637,928
Repairs and maintenance	2,292,005	2,845,457
Amortisation of intangible asset (Note 23)	1,644,302	2,373,456
Utility expenses	1,324,706	1,041,039
Reception and entertainment	1,196,952	258,830
Cash handling	967,593	567,943
Business travel expenses	907,891	124,539
Transportation	583,593	568,269
Rental expense	537,900	347,218
Training expenses	395,602	182,003
Security	247,803	236,587
Write-off of intangible assets (Note 23)	1,685	-
Others	13,416,426	9,503,140
	172,790,891	130,938,563

10. Income taxes

10.1 Income tax expense

The income tax expense for the year ended 31 December 2022 is:

	2022	2021
	MNT'000	MNT'000
Income tax:		
Current income tax	52,883,282	14,601,281
Adjustment in respect of current income tax of prior years	(8,775,015)	-
Deferred tax:		
Relating to temporary differences (Note 10.3)	1,541,839	1,127,785
	45,650,106	15,729,066

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

10. Income taxes (contd.)

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% (2021: 10%) for the first MNT 6 billion (2021: MNT 6 billion) of taxable income and 25% (2021: 25%) on the excess of taxable income over MNT 6 billion (2021: MNT 6 billion). Interest income on government bonds is not subject to income tax.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank for the year ended 31 December 2022 is as follows:

	2022	2021
	MNT'000	MNT'000
Profit before income tax	239,898,799	120,539,499
Tax at statutory rate of 25% (2021: 25%)	59,974,700	30,134,875
Effect of expenses not deductible for income tax purpose	15,244,967	19,567,730
Special tax rate	1,047,492	2,166,083
Tax rate difference	(1,703,595)	(1,578,177)
Effect of non-taxable income	(957,973)	(7,728,804)
Effect of income exempted from taxation	(16,735,241)	(26,743,079)
Effect of tax credit	(37,852)	(89,562)
Adjustment in respect of current income tax of prior years	(8,775,015)	–
Utilisation of previously unrecognised tax losses	(2,407,377)	–
Tax expense	45,650,106	15,729,066

As at 31 December 2022, the Bank has no available tax losses of (2021: MNT 9,629,506 thousand) that are available to offset against future taxable profits for the next four financial years. The annual amount of tax loss deductible from taxable income is limited to 50% of the taxable income in a given year.

The effective income tax rate for 2022 is 19.03% (2021: 13.05%).

10.2 Income tax liabilities

	2022	2021
	MNT'000	MNT'000
Income tax liabilities as at 1 January	12,499,999	111,957
Income tax expense for the year	52,883,282	14,601,281
Adjustment in respect of current income tax of prior years	(8,775,015)	–
Withheld by third parties	(866,148)	(2,213,239)
Income tax liabilities as at 31 December	55,742,118	12,499,999

10.3 Deferred tax liabilities

As at 31 December 2022	As at 1	Recognised in	Recognised in	As at 31
	January 2022	comprehensive	profit or loss	December 2022
	MNT'000	income	MNT'000	MNT'000
		MNT'000		
Deferred tax (assets)/liabilities				
Revaluation of financial investments measured at FVOCI	429,612	(175,393)	–	254,219
Revaluation of derivative financial instruments	1,558,458	–	1,500,000	3,058,458
Share of profit of an associate	(999,598)	–	41,839	(957,759)
Lease liabilities and ROU asset	46,872	–	–	46,872
	1,035,344	(175,393)	1,541,839	2,401,790

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

10. Income taxes (contd.)

10.3 Deferred tax liabilities (contd.)

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

11. Earnings per share

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

	2022 MNT'000	2021 MNT'000
Profit attributable to ordinary equity holders - basic and diluted	194,248,693	104,810,433
Adjusted weighted average number of ordinary shares for EPS	48,070,860	48,070,820
Earnings per share		
	MNT	MNT
<i>Equity holders of the Bank for the period:</i>		
Basic earnings per share	4,041	2,180
Diluted earnings per share	4,041	2,180

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year (See Note 30) and adjusted by the share split made after the reporting date (See Note 38).

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

12. Cash and balances with Bank of Mongolia

	2022	2021
	MNT'000	MNT'000
Cash on hand	69,650,934	86,908,373
Current accounts with BoM	824,923,439	889,640,138
Deposit accounts with BoM	861,881,738	–
Gross carrying amount	1,756,456,111	976,548,511
Less: Allowance for impairment losses on balances with BoM	(248,817)	(196,274)
Net cash and balances with BoM	1,756,207,294	976,352,237

Current accounts with BoM are maintained in accordance with BoM regulations. The balances maintained with BoM are determined at not less than 8.0% (2021: 6.0%) of customer deposits for local currency and not less than 18.0% (2021: 18.0%) of customer deposits for foreign currency based on average balance of two weeks.

As at 31 December 2022, the average reserves required by BoM for that period of two weeks were MNT 214,059,644 thousand (2021: MNT 204,051,735 thousand) for local currency and MNT 646,037,152 thousand (2021: MNT 513,533,692 thousand) for foreign currency maintained on current accounts with BoM.

Impairment allowance for cash and balances with BoM

The table below shows the credit quality and the maximum exposure excluding cash on hand to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. As at 31 December 2022 and 2021, the balances have credit rating of B- and classified as stage 1. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 33:

	12 month	Total	ECL
	PD range	Exposure at	Stage 1
		default	Stage 1
		Stage 1	MNT'000
		MNT'000	MNT'000
31 December 2022	2.373%	1,686,805,177	(248,817)
31 December 2021	2.409%	889,640,138	(196,274)

An analysis of changes in the ECL allowance as at 31 December 2022 and 2021 are as follows:

	2022	2021
	MNT'000	MNT'000
At 1 January	196,274	170,578
Net charge for the year (Note 8)	52,543	25,696
At 31 December	248,817	196,274

Additional cashflow information

	2022	2021
	MNT'000	MNT'000
Cash and balances with BoM (Note 12)	1,756,456,111	976,548,511
Due from banks and financial institutions (Note 13)	767,073,137	504,422,698
Unquoted BoM treasury bills - less than three months (Note 14)	949,566,385	1,661,230,725
Gross carrying cash and cash equivalents amount	3,473,095,633	3,142,201,934
Less: Minimum reserve with the BoM not available to finance the Bank's day to day operations	(860,096,796)	(717,585,428)
Less: Placement with foreign bank as cash collateral	(188,969,117)	(159,292,237)
Less: Unquoted BoM treasury bills - less than three months held as collateral	(308,646,228)	(538,216,577)
Net cash and cash equivalents	2,115,383,492	1,727,107,692

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

13. Due from other banks and financial institutions

	2022	2021
	MNT'000	MNT'000
Current accounts with foreign banks and financial institutions	411,613,586	244,856,076
Placement with foreign bank as cash collateral	188,969,117	159,292,237
Current accounts with local banks and financial institutions	3,921,113	889,908
Placement with foreign banks and financial institutions	162,569,321	99,384,477
Gross carrying amount	767,073,137	504,422,698
Less: Allowance for impairment losses	(5,497)	(5,148)
Net due from banks and other financial institutions balance	767,067,640	504,417,550

Impairment allowance for due from other banks and financial institutions

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 33.

		Total	
	12 month	Exposure at	ECL
	PD range	default	Stage 1
		Stage 1	Stage 1
		MNT'000	MNT'000
At 31 December 2022			
Internal rating grade			
A- to AA+ rated	0.008% - 0.033%	737,773,958	1,940
BBB- to BBB+	0.140%	2,244,155	6
B- to BB+	0.604% - 2.6%	8,902,522	243
Not rated	11.18%	18,152,502	3,308
		767,073,137	5,497
At 31 December 2021			
Internal rating grade			
A- to AA+ rated	0.022% - 0.076%	447,407,252	2,440
BBB- to BBB+	0.257%	27,913,686	111
B- to BB+	0.875% - 2.974%	16,513,689	542
Not rated	10.11%	12,588,071	2,055
		504,422,698	5,148

An analysis of changes in the ECL allowance as at 31 December 2022 and 2021 are as follows:

	2022	2021
	Stage 1	Stage 1
	MNT'000	MNT'000
Gross carrying amount as at 1 January	504,422,698	570,008,607
New assets originated or purchased	393,377,371	106,773,411
Repaid amounts	(160,522,920)	(174,317,103)
Foreign exchange adjustments	29,795,988	1,957,783
At 31 December	767,073,137	504,422,698
ECL allowance as at 1 January	5,148	6,953
New assets originated or purchased	3,558	2,664
Assets derecognised or repaid (excluding write-offs)	(168)	(4,324)
Changes to assumptions	(3,041)	(145)
Net charge/(reversal) for the year (Note 8)	349	(1,805)
At 31 December	5,497	5,148

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

14. Financial investments

	2022	2021
	MNT'000	MNT'000
Debt instruments measured at FVOCI:		
Government USD bond (a)	102,883,542	58,774,436
Bank of Mongolia bills (b)	949,566,385	1,661,230,725
MIK USD bond (c)	27,362,835	34,429,486
	1,079,812,762	1,754,434,647
Equity instruments measured at FVOCI		
Unquoted equities (d)	3,168,532	3,395,537
Quoted equities (e)	70,359,946	54,267,410
	73,528,478	57,662,947
Debt instruments at amortised cost		
Government bonds (f)	242,599,801	544,984,309
Development Bank of Mongolia bonds (g)	–	45,694,979
Loan backed securities - Senior tranche (i)	7,953,415	–
	250,553,216	590,679,288
Financial assets at FVTPL		
Residential mortgage-backed securities (h)	260,184,968	199,870,221
Loan backed securities - Junior tranche (i)	5,832,160	–
	266,017,128	199,870,221
	1,669,911,584	2,602,647,103

- (a) Quoted government bonds represent investment in government bonds listed on foreign market.
- (b) Unquoted BoM treasury bills are purchased either at par, premium or discount.
- (c) Quoted corporate bond represent investment in Mongolian Mortgage Corporation (“MIK”) bond listed on foreign market.
- (d) Unquoted equity securities represent investments made in unquoted private companies. The Bank holds non-controlling interests in these companies. These investments were irrevocably designated at fair value through OCI as the Bank considers these investments to be strategic in nature.
- (e) Quoted equity securities represent investments made in quoted companies such as Visa Inc. and Mongolian Mining Corporation. In 2021, the Bank repossessed 4.215% shares of Mongolian Mining Corporation for loan repayment.
- (f) Government bonds are unquoted interest-bearing bonds issued by the Government of Mongolia (“GoM”).
- (g) Development Bank of Mongolia (“DBM”) bonds are unquoted interest-bearing long-term bonds issued by DBM under the ASEM project and fully paid within 2022.
- (h) Residential mortgage-backed securities (“RMBSs”) represent Junior and Senior tranche of an interest-bearing long-term securities issued by MIK (see Note 17).
- (i) Loan-backed securities (“LBSs”) represent Junior and Senior tranches of and interest-bearing, long-term securities issued by wholly owned special purpose companies of Securities Financing Corporation LLC (“SFC”). The Bank transferred fixed rate repurchase agreement financed business loans to SFC without recourse and received the LBSs in exchange (see Note 17).

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

14. Financial investments (contd.)

Impairment allowance for financial investment

The table below shows the fair value of the Bank's debt instruments measured at FVOCI and measured at amortised cost by credit risk including ECL allowance, based on the Bank's internal credit rating system and year-end stage classification. As at 31 December 2022 and 2021, both debt instruments have credit rating of B- to B+ and classified as stage 1. Details of the Bank's internal grading system and policies on whether ECL allowances set out in Note 33.

	2022	ECL	2021	ECL
	Fair value/ Gross carrying amount MNT'000	MNT'000	Fair value/ Gross carrying amount MNT'000	MNT'000
Debt instruments at FVOCI				
As at 1 January	1,754,434,647	490,561	714,034,384	159,260
New assets originated or purchased	10,855,406,821	485,116	17,439,418,686	5,543,849
Payments and assets derecognised	(11,531,546,548)	(258,241)	(16,397,237,146)	(5,212,548)
Changes in fair value	(18,175,222)	–	(1,775,408)	–
Foreign exchange adjustments	19,693,064	–	(5,869)	–
Net charge/(reversal) for the year (Note 8)	–	226,875	–	331,301
As at 31 December	1,079,812,762	717,436	1,754,434,647	490,561
Debt instruments at AC				
As at 1 January	591,136,516	457,228	835,875,835	842,805
New assets originated or purchased	25,860,700	49,096	–	–
Payments and assets derecognised	(366,265,648)	(327,972)	(244,739,319)	(385,577)
Net charge/(reversal) for the year (Note 8)	–	(278,876)	–	(385,577)
As at 31 December	250,731,568	178,352	591,136,516	457,228

15. Investment in associate

As of 31 December 2022, the Bank holds 10.00% (2021: 10.00%) (or effective holding around 13.58% (2021: 13.58%) taking into account of the effect of treasury shares) in MIK.

During 2021, in order to comply with the requirement of the Banking law, the Bank disposed part of its investment in MIK to one of the related parties of the Bank, for total consideration of MNT 17,013,040 thousand. Nevertheless, the Bank continued to have significant influence over MIK, even though it owns less than 20% of the voting rights (See Note 3).

MIK's principal activities include purchasing of mortgage pools by issuing RMBS securitised by those mortgage pools in Mongolia or proceeds from its senior notes issued in the international capital market. MIK is a public entity that is listed on the Mongolian stock exchange ("MSE"). The Bank holds a total of 2,070,932 MIK shares as of 31 December 2022 (2021: 2,070,932 shares), the closing price of MIK shares at MSE at 31 December 2022 was MNT 20,260 per share (2021: MNT 14,990 per share).

As of the date of this report, MIK has not issued its audited financial statements for the year ended 31 December 2022. The Bank's interest in MIK is accounted for using the equity method based on MIK's most recent available financial information as at 31 December 2022, adjusted for any significant events as appropriate. MIK's audited financial statements may be different from the information used by the Bank and any difference will be adjusted for by the Bank in 2023.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

15. Investment in associate (contd.)

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

MNT'000

At 1 January 2021

Share of loss of an associate until partial disposal		40,813,475
Fair value of net identifiable assets of an associate as at the date of the disposal		(17,646,059)
Proceeds from partial disposal of equity interest		23,167,416
Gain on partial disposal of equity interest (Note 7)		(17,013,040)
Share of loss of an associate after partial disposal		5,434,794
		(11,082,873)

At 31 December 2021 and 1 January 2022

Share of profit of an associate for the year		506,297
		418,388
At 31 December 2022		924,685

	2022	2021
	MNT'000	MNT'000
Investee: MIK		
Total assets	4,551,197,297	4,225,506,608
Total liabilities	(4,544,388,129)	(4,221,778,353)
Equity	6,809,168	3,728,255
Bank's share of equity 13.58% (2021: 13.58%)	924,685	506,297
Net interest income for the year	80,832,933	88,685,106
Total comprehensive income/(loss) for the year	3,080,311	(146,584,510)

16. Derivative financial instruments

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

	Notional amount MNT'000	Fair value	
		Assets MNT'000	Liabilities MNT'000
At 31 December 2022			
<i>Derivatives held for trading</i>			
Cross-currency interest rate swaps with MIK and BoM (a)	515,730,880	164,487,198	163,873,260
Cross-currency interest rate swaps with BoM (b)	514,981,550	98,664,180	17,439
Forwards	91,916,250	2,223,053	2,312,838
	1,122,628,680	265,374,431	166,203,537
At 31 December 2021			
<i>Derivatives held for trading</i>			
Cross-currency interest rate swaps with MIK and BoM (a)	777,151,290	69,916,420	75,951,189
Cross-currency interest rate swaps with BoM (b)	422,800,045	1,969,251	2,084,772
Commodity swap (c)	14,244,000	28,522,286	-
Forwards	98,077,347	1,239,541	-
	1,312,272,682	101,647,498	78,035,961

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

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. The Bank's risk management strategy and how it is applied to manage its risks is disclosed in Note 33.

16. Derivative financial instruments (contd.)

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

(b) The Bank enters into cross-currency interest rate swap agreements with BoM. At initiation, the Bank has paid USD funds to BoM and received MNT funds at the spot rate. During the term of the agreement with BoM, the Bank receives interest on USD funds at SOFR (2021: LIBOR) plus certain margin and pays interest on MNT funds at the central bank policy rate. At the end of the term of agreements, the parties shall exchange the principal payments at the exchange rate of the initial transaction.

(c) On 11 November 2021, the Bank signed a gold purchase and sales financing agreement with a mining company. Under the agreement, the Bank made advance payment and is due to receive cash payment equivalent to pre agreed fixed ounces of gold in 2022. The contract period was 12 months from the date of advance payment and it has expired on 30 November 2022.

17. Loans and advances to customers

	2022 MNT'000	2021 MNT'000
Corporate	3,238,302,119	3,672,863,022
Retail loan	609,782,895	548,255,161
Small and Medium-sized enterprise (SME)	419,507,830	535,436,302
Loans to executives, directors and staffs	19,397,814	23,922,698
Gross loans and advances to customers	4,286,990,658	4,780,477,183
Allowance for impairment losses	(480,684,826)	(530,333,951)
Net loans and advances to customers	3,806,305,832	4,250,143,232
Loans and advances to customers at FVTPL	330,876,566	338,322,173
Total loans and advances to customers	4,137,182,398	4,588,465,405

Transferred financial assets that are derecognised in their entirety

Sale of mortgage pools

During the year (on 4 August, 30 November and 16 December 2022) the Bank sold 100% of the rights of the cash flows arising from portfolios of fixed rate mortgage loans to wholly owned special purpose companies of MIK in exchange for RMBS. The Bank derecognised the loan portfolio and recognised the Senior RMBS and Junior RMBS received as financial assets (see Note 14). Bank's continuing involvement in the transferred assets is also to act as servicer of the transferred assets until its maturity, with a quarterly servicing fee of 2.5% of serviced amount. The total servicing fee recognised in 2022 amounts to MNT 2,003 million (2021: MNT 2,791 million) included within Fees and commission income. The Bank may become obligated to repurchase the derecognised financial assets in the unlikely event of liquidation of the special purpose companies. The undiscounted cash outflows that may be required to repurchase derecognised financial assets amounts to MNT 1,023,403 million as of 31 December 2022 (2021: MNT 900,824 million).

Sale of business loan pools

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

17. Loans and advances to customers (contd.)

Transferred financial assets that are derecognised in their entirety (contd.)

Sale of business loan pools (*contd.*)

As part of sub-program in supporting SMEs, the Bank participated in securitisation transactions with wholly owned special purpose companies of SFC in selling SME loan pools. The Bank originated a total of MNT 28,561 million of SME loans with an interest rate of 10.5% p.a and maturity of 2-3 years, in return for which the Bank received LBS. The Bank did not retain all the risks and rewards related to the loans sold to SFC within these transactions. The Bank has transferred the control of the assets to SFC. Therefore, the Bank derecognised the loan portfolio and recognised the Senior LBS and Junior LBS received as financial assets bearing an interest rate of 9.5% p.a with a maturity of up to 3 years (see Note 14).

Bank's continuing involvement in the transferred assets is to also act as servicer of the transferred assets until its maturity, with an quarterly servicing fee of 0.5% of serviced amount. The total servicing fee recognised in 2022 amounts to MNT 96,047 thousand (2021: nil) included within Fees and commission income. The Bank may become obligated to repurchase the derecognised financial assets in the unlikely event of liquidation of the special purpose companies. The undiscounted cash outflows that may be required to repurchase derecognised financial assets amounts to MNT 11,258,455 thousand as of 31 December 2022 (2021: nil).

Loans and advances to customers at FVPL

The Bank holds mortgage portfolio of loans and advances to customers to be sold to MIK amounting to MNT 319,335 million (2021: 338,322 million) and portfolio of loans and advances to customers to be sold to SFC amounting to MNT 11,541 million. These loans and advances were classified as measured at FVTPL.

Transferred financial assets that are not derecognised in their entirety

Furthermore, the Bank participated in monetisation transactions with MIK for selling of loan pools collateralised by immovable assets with recourse. The Bank sold MNT 119,683 million of loans to MIK in 2021 (none in 2022), for which the Bank received funding bearing interest rate of 13.8% p.a. The Bank retained all the risks and rewards related to the loans sold to MIK within these transactions. Therefore, the assets do not qualify for derecognition. The assets not qualified for derecognition amounted to MNT 143,281 million as at 31 December 2022 (2021: MNT 215,070 million) (See Note 29).

Government implemented Covid-19 relief program

Throughout 2021 and 2022, the GoM had implemented Covid-19 relief program together with BoM, under which it was resolved to provide an interest payment holiday to project mortgage loan holders. Under the program, the mortgage loan borrowers were given interest free period of up to six to eight months, whereas the payments deferred in the period is to be paid later by extending the original maturity of the loan. The relief program had ended on 31 December 2022 and net modification loss of MNT 7,782 million (2021: MNT 6,754 million) (see Note 7) was recognised in relation to this amendment.

Impairment allowance for loans and advances to customers

The tables below show the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 33.

At 31 December 2022	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2022	3,672,863,022	535,436,302	572,177,859	4,780,477,183
New assets originated or purchased	878,273,917	91,766,582	394,879,755	1,364,920,254
Assets derecognised or repaid	(1,382,812,916)	(198,453,620)	(337,847,573)	(1,919,114,109)
Net movement on accrued interest	(63,199,291)	(2,602,198)	(804,538)	(66,606,027)
Movement from segment change	4,787,430	(4,787,430)	-	-
Write-offs	(10,417,350)	(1,407,856)	(305,713)	(12,130,919)
Foreign exchange adjustments	138,807,307	215,598	421,371	139,444,276
At 31 December 2022	3,238,302,119	420,167,378	628,521,161	4,286,990,658

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

Impairment allowance for loans and advances to customers (contd.)

At 31 December 2022	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
ECL allowance as at 1 January 2022	460,582,583	51,525,615	18,225,753	530,333,951
New assets originated or purchased	15,671,639	2,256,615	1,992,656	19,920,910
Assets derecognised or repaid	(114,561,275)	(20,154,936)	(6,891,084)	(141,607,295)
Net movement on accrued interest	(12,911,072)	(142,381)	(3,271)	(13,056,724)
Impact on ECL from stage transfers and input changes	85,290,145	4,477,993	4,490,387	94,258,525
Impact on ECL from segment changes	2,568,811	(2,568,811)	–	–
Net charge for the year (Note 8)	(23,941,752)	(16,131,520)	(411,312)	(40,484,584)
Write-offs	(10,417,350)	(1,407,856)	(305,713)	(12,130,919)
Foreign exchange adjustments	2,952,828	4,586	8,964	2,966,378
At 31 December 2022	429,176,309	33,990,825	17,517,692	480,684,826

At 31 December 2021	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2021	3,531,609,201	410,377,769	530,905,759	4,472,892,729
New assets originated or purchased	1,251,410,506	306,211,403	337,049,995	1,894,671,904
Assets derecognised or repaid	(1,074,123,381)	(168,159,872)	(304,018,829)	(1,546,302,082)
Net movement on accrued interest	(51,840,234)	4,263,263	8,940,559	(38,636,412)
Movement from segment change	17,214,861	(17,214,861)	–	–
Foreign exchange adjustments	(1,407,931)	(41,400)	(699,625)	(2,148,956)
At 31 December 2021	3,672,863,022	535,436,302	572,177,859	4,780,477,183

ECL allowance as at 1 January 2021	488,614,295	64,257,285	42,977,643	595,849,223
New assets originated or purchased	22,097,256	5,667,582	1,667,634	29,432,472
Assets derecognised or repaid	(64,771,351)	(17,607,646)	(17,254,975)	(99,633,972)
Net movement on accrued interest	(6,391,581)	(56,112)	(451,348)	(6,899,041)
Impact on ECL from stage transfers and input changes	18,153,833	2,150,058	(8,713,201)	11,590,690
Impact on ECL from segment changes	2,885,552	(2,885,552)	–	–
Net charge for the year (Note 8)	(28,026,291)	(12,731,670)	(24,751,890)	(65,509,851)
Write-offs	(5,421)	–	–	(5,421)
At 31 December 2021	460,582,583	51,525,615	18,225,753	530,333,951

	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
At 31 December 2022				
Performing	2,032,577,414	371,098,063	603,925,636	3,007,601,113
Special mention	420,687,760	3,437,427	2,965,130	427,090,317
Substandard	267,708,014	18,176,509	6,639,945	292,524,468
Doubtful	118,910,776	4,807,424	3,111,008	126,829,208
Loss	398,418,155	22,647,955	11,879,442	432,945,552
Total	3,238,302,119	420,167,378	628,521,161	4,286,990,658

At 31 December 2021				
Performing	1,950,286,113	453,712,950	532,227,178	2,936,226,241
Special mention	914,493,950	894,910	492,238	915,881,098
Substandard	537,494,386	43,392,192	26,386,059	607,272,637
Doubtful	22,409,676	7,487,855	3,165,775	33,063,306
Loss	248,178,897	29,948,395	9,906,609	288,033,901
Total	3,672,863,022	535,436,302	572,177,859	4,780,477,183

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

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

Business loan

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2022	1,574,487,903	1,290,292,160	808,082,959	3,672,863,022
New assets originated or purchased	878,273,917	–	–	878,273,917
Assets derecognised or repaid	(581,366,888)	(684,527,844)	(116,918,184)	(1,382,812,916)
Net movement on accrued interest	3,901,533	(80,913,548)	13,812,724	(63,199,291)
Movement from segment change	(727,841)	2,123,893	3,391,378	4,787,430
Transfer to/(from) Stage 1	75,927,046	(47,500,848)	(28,426,198)	–
Transfer to/(from) Stage 2	(555,898,005)	617,145,416	(61,247,411)	–
Transfer to/(from) Stage 3	(72,626,767)	(75,823,366)	148,450,133	–
Write-offs	–	(10,417,350)	–	(10,417,350)
Foreign exchange adjustments	66,234,388	54,681,375	17,891,544	138,807,307
At 31 December 2022	1,388,205,286	1,065,059,888	785,036,945	3,238,302,119
ECL allowance as at 1 January 2022	30,901,015	166,019,042	263,662,526	460,582,583
New assets originated or purchased	15,671,639	–	–	15,671,639
Assets derecognised or repaid	(15,028,306)	(78,294,000)	(21,238,969)	(114,561,275)
Net movement on accrued interest	(222,445)	(9,777,029)	(2,911,598)	(12,911,072)
Transfer to/(from) Stage 1	11,352,133	(6,373,551)	(4,978,582)	–
Transfer to/(from) Stage 2	(9,624,292)	9,837,771	(213,479)	–
Transfer to/(from) Stage 3	(1,585,671)	(18,095,540)	19,681,211	–
Impact on ECL from stage transfers and input changes	(1,235,577)	50,473,223	36,052,499	85,290,145
Impact on ECL from segment changes	(120,900)	175,762	2,513,949	2,568,811
Write-off	–	(10,417,350)	–	(10,417,350)
Foreign exchange adjustments	1,408,995	1,163,229	380,604	2,952,828
At 31 December 2022	31,516,591	104,711,557	292,948,161	429,176,309
Gross carrying amount as at 1 January 2021	1,090,151,437	1,726,741,323	714,716,441	3,531,609,201
New assets originated or purchased	1,251,410,506	–	–	1,251,410,506
Assets derecognised or repaid	(468,657,181)	(376,145,101)	(229,321,099)	(1,074,123,381)
Net movement on accrued interest	(49,759,636)	(4,922,580)	2,841,982	(51,840,234)
Movement from segment change	9,183,417	–	8,031,444	17,214,861
Transfer to/(from) Stage 1	213,588,863	(129,529,654)	(84,059,209)	–
Transfer to/(from) Stage 2	(292,703,309)	311,827,127	(19,123,818)	–
Transfer to/(from) Stage 3	(177,394,697)	(237,633,326)	415,028,023	–
Foreign exchange adjustments	(1,331,497)	(45,629)	(30,805)	(1,407,931)
At 31 December 2021	1,574,487,903	1,290,292,160	808,082,959	3,672,863,022
ECL allowance as at 1 January 2021	7,475,613	221,333,691	259,804,991	488,614,295
New assets originated or purchased	22,097,256	–	–	22,097,256
Assets derecognised or repaid	(5,259,995)	(25,845,499)	(33,665,857)	(64,771,351)
Net movement on accrued interest	(438,032)	(2,498,385)	(3,455,164)	(6,391,581)
Transfer to/(from) Stage 1	6,073,399	(2,792,186)	(3,281,213)	–
Transfer to/(from) Stage 2	(389,103)	5,841,411	(5,452,308)	–
Transfer to/(from) Stage 3	(216,241)	(17,536,648)	17,752,889	–
Impact on ECL from stage transfers and input changes	1,499,586	(12,483,342)	29,137,589	18,153,833
Impact on ECL from segment changes	63,953	–	2,821,599	2,885,552
Write-off	(5,421)	–	–	(5,421)
At 31 December 2021	30,901,015	166,019,042	263,662,526	460,582,583

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

Business loan (contd.)

Credit quality of gross carrying amounts as at 31 December 2022 and 2021:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2022				
Performing	1,388,205,286	644,372,128	–	2,032,577,414
Special mention	–	420,687,760	–	420,687,760
Substandard	–	–	267,708,014	267,708,014
Doubtful	–	–	118,910,776	118,910,776
Loss	–	–	398,418,155	398,418,155
Total	1,388,205,286	1,065,059,888	785,036,945	3,238,302,119
At 31 December 2021				
Performing	1,574,487,903	375,798,210	–	1,950,286,113
Special mention	–	914,493,950	–	914,493,950
Substandard	–	–	537,494,386	537,494,386
Doubtful	–	–	22,409,676	22,409,676
Loss	–	–	248,178,897	248,178,897
Total	1,574,487,903	1,290,292,160	808,082,959	3,672,863,022

SME loans

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2022	427,617,381	26,990,479	80,828,442	535,436,302
New assets originated or purchased	91,766,582	–	–	91,766,582
Assets derecognised or repaid	(160,580,996)	(10,574,657)	(27,297,967)	(198,453,620)
Net movement on accrued interest	(1,126,042)	1,159,388	(2,635,544)	(2,602,198)
Movement from segment change	727,841	(2,123,893)	(3,391,378)	(4,787,430)
Transfer to/(from) Stage 1	15,520,843	(8,156,258)	(7,364,585)	–
Transfer to/(from) Stage 2	(15,252,372)	17,184,379	(1,932,007)	–
Transfer to/(from) Stage 3	(4,424,514)	(4,408,269)	8,832,783	–
Write-offs	–	–	(1,407,856)	(1,407,856)
Foreign exchange adjustments	214,983	615	–	215,598
At 31 December 2022	354,463,706	20,071,784	45,631,888	420,167,378
ECL allowance as at 1 January 2022	8,395,206	2,705,110	40,425,299	51,525,615
New assets originated or purchased	2,256,615	–	–	2,256,615
Assets derecognised or repaid	(5,056,420)	(649,334)	(14,449,182)	(20,154,936)
Net movement on accrued interest	(308,867)	(53,362)	219,848	(142,381)
Transfer to/(from) Stage 1	4,683,675	(1,025,237)	(3,658,438)	–
Transfer to/(from) Stage 2	(372,052)	1,297,115	(925,063)	–
Transfer to/(from) Stage 3	(74,492)	(672,348)	746,840	–
Impact on ECL from stage transfers and input changes	(3,408,869)	(264,265)	8,151,127	4,477,993
Impact on ECL from segment changes	120,900	(175,762)	(2,513,949)	(2,568,811)
Write-offs	–	–	(1,407,856)	(1,407,856)
Foreign exchange adjustments	4,573	13	–	4,586
At 31 December 2022	6,240,269	1,161,930	26,588,626	33,990,825

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

SME loan (contd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2021	205,574,549	96,263,487	108,539,733	410,377,769
New assets originated or purchased	306,211,403	–	–	306,211,403
Assets derecognised or repaid	(99,641,475)	(37,887,057)	(30,631,340)	(168,159,872)
Net movement on accrued interest	1,171,302	1,537,982	1,553,979	4,263,263
Movement from segment change	(9,183,417)	–	(8,031,444)	(17,214,861)
Transfer to/(from) Stage 1	41,402,935	(33,456,070)	(7,946,865)	–
Transfer to/(from) Stage 2	(11,678,388)	16,830,986	(5,152,598)	–
Transfer to/(from) Stage 3	(6,198,807)	(16,298,454)	22,497,261	–
Foreign exchange adjustments	(40,721)	(395)	(284)	(41,400)
At 31 December 2021	427,617,381	26,990,479	80,828,442	535,436,302

ECL allowance as at 1 January 2021	3,627,090	14,686,840	45,943,355	64,257,285
New assets originated or purchased	5,667,582	–	–	5,667,582
Assets derecognised or repaid	(3,074,753)	(3,563,188)	(10,969,705)	(17,607,646)
Net movement on accrued interest	(289,866)	33,194	200,560	(56,112)
Transfer to/(from) Stage 1	9,914,310	(6,544,743)	(3,369,567)	–
Transfer to/(from) Stage 2	(302,911)	2,044,203	(1,741,292)	–
Transfer to/(from) Stage 3	(117,146)	(2,909,786)	3,026,932	–
Impact on ECL from stage transfers and input changes	(6,965,147)	(1,041,410)	10,156,615	2,150,058
Impact on ECL from segment changes	(63,953)	–	(2,821,599)	(2,885,552)
At 31 December 2021	8,395,206	2,705,110	40,425,299	51,525,615

Credit quality of gross carrying amounts as at 31 December 2022 and 2021:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2022				
Performing	354,463,706	16,634,357	–	371,098,063
Special mention	–	3,437,427	–	3,437,427
Substandard	–	–	18,176,509	18,176,509
Doubtful	–	–	4,807,424	4,807,424
Loss	–	–	22,647,955	22,647,955
Total	354,463,706	20,071,784	45,631,888	420,167,378
At 31 December 2021				
Performing	427,617,381	26,095,569	–	453,712,950
Special mention	–	894,910	–	894,910
Substandard	–	–	43,392,192	43,392,192
Doubtful	–	–	7,487,855	7,487,855
Loss	–	–	29,948,395	29,948,395
Total	427,617,381	26,990,479	80,828,442	535,436,302

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

Retail loan

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2022	505,837,818	26,881,598	39,458,443	572,177,859
New assets originated or purchased	394,879,755			394,879,755
Assets derecognised or repaid	(312,635,484)	(10,832,718)	(14,379,371)	(337,847,573)
Net movement on accrued interest	(554,620)	101,807	(351,725)	(804,538)
Transfer to/(from) Stage 1	17,146,921	(10,245,380)	(6,901,541)	–
Transfer to/(from) Stage 2	(10,210,860)	12,628,260	(2,417,400)	–
Transfer to/(from) Stage 3	(3,326,133)	(3,149,064)	6,475,197	–
Write-offs	–	–	(305,713)	(305,713)
Foreign exchange adjustments	351,601	17,265	52,505	421,371
At 31 December 2022	591,488,998	15,401,768	21,630,395	628,521,161
ECL allowance as at 1 January 2022	2,317,412	1,527,671	14,380,670	18,225,753
New assets originated or purchased	1,992,656			1,992,656
Assets derecognised or repaid	(1,823,368)	(478,403)	(4,589,313)	(6,891,084)
Net movement on accrued interest	(223,187)	(22,168)	242,084	(3,271)
Transfer to/(from) Stage 1	2,324,860	(525,050)	(1,799,810)	–
Transfer to/(from) Stage 2	(104,344)	724,417	(620,073)	–
Transfer to/(from) Stage 3	(26,666)	(343,740)	370,406	–
Impact on ECL from stage transfers and input changes	(1,816,815)	(121,558)	6,428,760	4,490,387
Write-offs	–	–	(305,713)	(305,713)
Foreign exchange adjustments	7,480	367	1,117	8,964
At 31 December 2022	2,648,028	761,536	14,108,128	17,517,692
Gross carrying amount as at 1 January 2021	374,377,456	116,782,795	39,745,508	530,905,759
New assets originated or purchased	337,049,995	–	–	337,049,995
Assets derecognised or repaid	(244,142,434)	(48,310,008)	(11,566,387)	(304,018,829)
Net movement on accrued interest	2,886,495	5,282,663	771,401	8,940,559
Transfer to/(from) Stage 1	55,638,674	(50,741,061)	(4,897,613)	–
Transfer to/(from) Stage 2	(10,459,698)	15,691,000	(5,231,302)	–
Transfer to/(from) Stage 3	(8,813,463)	(11,823,665)	20,637,128	–
Foreign exchange adjustments	(699,207)	(126)	(292)	(699,625)
At 31 December 2021	505,837,818	26,881,598	39,458,443	572,177,859
ECL allowance as at 1 January 2021	3,265,442	21,513,367	18,198,834	42,977,643
New assets originated or purchased	1,667,634	–	–	1,667,634
Assets derecognised or repaid	(5,958,781)	(6,657,591)	(4,638,603)	(17,254,975)
Net movement on accrued interest	(480,122)	(30,521)	59,295	(451,348)
Transfer to/(from) Stage 1	12,721,291	(10,561,297)	(2,159,994)	–
Transfer to/(from) Stage 2	(315,271)	2,099,155	(1,783,884)	–
Transfer to/(from) Stage 3	(319,083)	(2,178,112)	2,497,195	–
Impact on ECL from stage transfers and input changes	(8,263,698)	(2,657,330)	2,207,827	(8,713,201)
At 31 December 2021	2,317,412	1,527,671	14,380,670	18,225,753

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

17. Loans and advances to customers (contd.)

Retail loan (contd.)

Credit quality of gross carrying amounts as at 31 December 2022 and 2021:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2022				
Performing	591,488,998	12,436,638	–	603,925,636
Special mention	–	2,965,130	–	2,965,130
Substandard	–	–	6,639,945	6,639,945
Doubtful	–	–	3,111,008	3,111,008
Loss	–	–	11,879,442	11,879,442
Total	591,488,998	15,401,768	21,630,395	628,521,161
At 31 December 2021				
Performing	505,837,818	26,389,360	–	532,227,178
Special mention	–	492,238	–	492,238
Substandard	–	–	26,386,059	26,386,059
Doubtful	–	–	3,165,775	3,165,775
Loss	–	–	9,906,609	9,906,609
Total	505,837,818	26,881,598	39,458,443	572,177,859

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

As at the reporting date, the Bank has total outstanding loan receivable from Mongolian Copper Corporation LLC (“MCC”) of MNT 183.7 billion (2021: MNT 205.5 billion) and loan receivable from Kanetic Pte Ltd was fully settled during the year (2021: MNT 228.1 billion). The recoverability of the loan is highly dependent on the favourable outcome of the ongoing discussions between MCC and the GoM regarding the takeover of the 49% equity interest in Erdenet Mining Corporation LLC. As of 31 December 2022, the Bank has provided an allowance for expected credit losses for the loan receivable from MCC of MNT 25.8 billion (2021: MNT 40.5 billion).

18. Other assets

	2022 MNT'000	2021 MNT'000
Prepaid expenses and advances	24,500,292	14,064,547
Settlement receivables	17,526,442	7,701,212
Deferred employee benefit	1,863,786	2,332,243
Consumables and other office supplies	4,169,503	3,954,658
Precious metals	84,657	10,133,400
Prepayment made for construction	63,652,848	41,793,722
Other receivables	115,878,710	115,815,812
Less: Allowance for other receivables	(38,884,014)	(45,846,848)
	188,792,224	149,948,746
Foreclosed properties, net of impairment	277,158,336	50,102,847
	277,158,336	50,102,847
Total other assets	465,950,560	200,051,593

Included in prepaid expenses and advances are guarantee deposits held for international card payment organisations amounting to MNT 12,900 million (2021: MNT 10,667 million).

Settlement receivables mainly relate to the amount of receivables on cash and settlements services. Related balances were settled on next working day.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

18. Other assets (contd.)

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

Prepayment made for construction represents advance payments made to Riverstone Properties LLC (“Riverstone”) to construct the Bank’s new office building. Total of 56% (2021: 52%) of the total contract fee has been prepaid according to the construction agreement, from which 76% (2021: 83%) of the prepayment has been recorded as construction-in-progress (see Note 21) according to the actual construction progress. The construction is estimated to be complete by 2025.

Foreclosed properties represent real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of these assets in the foreseeable future.

Other receivables include other loan receivables that represent interest free or lower interest rate receivables from various entities for which the Bank recognised a day 1 loss at initial recognition and modification loss upon the extension of term of these receivables and classified them as Stage 2. The total loss recognised with respect to the receivables amount to MNT 13,861,532 thousand as of 31 December 2022 (2021: MNT 17,805,897 thousand) (See Note 7).

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

	2022	2021
	MNT’000	MNT’000
Impairment allowance on other loan receivables		
At 1 January	45,846,848	31,291,054
Charge for the year	19,479,072	17,268,611
Reversal	(4,912,641)	(185,735)
Net charge for the year (Note 8)	14,566,431	17,082,876
Write-off during the year	(21,529,265)	(2,527,082)
At 31 December	38,884,014	45,846,848

The tables below show the credit quality and the maximum exposure to credit risk of other receivables based on the Bank’s internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank’s internal grading system are set out in Note 33.

	Stage 1	Stage 2	Stage 3	Total
	MNT’000	MNT’000	MNT’000	MNT’000
At 31 December 2022				
Performing	13,810,066	14	–	13,810,080
Special mention	–	80,801,229	–	80,801,229
Substandard	–	–	539,917	539,917
Doubtful	–	–	31,033	31,033
Loss	–	–	20,696,451	20,696,451
Total	13,810,066	80,801,243	21,267,401	115,878,710
At 31 December 2021				
Performing	16,164,144	25,324,490	–	41,488,634
Special mention	–	28,775,240	–	28,775,240
Substandard	–	–	795,115	795,115
Doubtful	–	–	1,103	1,103
Loss	–	–	44,755,720	44,755,720
Total	16,164,144	54,099,730	45,551,938	115,815,812

19. Investment property

	2022	2021
	MNT’000	MNT’000
At 1 January	79,902,629	148,990,218
Disposal	–	(20,898,204)
Transfer	–	(48,623,002)
Change in fair value (Note 7)	95,125	433,617
At 31 December	79,997,754	79,902,629

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

20. Assets held for sale

	2022	2021
	MNT'000	MNT'000
Buildings and real estate	24,581,450	3,216,435
Vehicle	84,267	389,529
	<u>24,665,717</u>	<u>3,605,964</u>

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

21. Property and equipment

	Buildings and land	Office equipment and vehicles	Computers and others	Construction-in-progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2022					
At cost/valuation					
At 1 January 2022	246,797,379	16,168,462	62,124,835	198,634,383	523,725,059
Additions	–	6,788	16,172,877	4,052,030	20,231,695
Disposals	(8,986,075)	(533,322)	(4,290)	–	(9,523,687)
Write-offs (Note 9)	(7,035,000)	(173,576)	(3,645,835)	–	(10,854,411)
Transfer	–	–	(1,111,576)	–	(1,111,576)
Reclassification	–	1,982,146	(1,982,146)	–	–
At 31 December 2022	<u>230,776,304</u>	<u>17,450,498</u>	<u>71,553,865</u>	<u>202,686,413</u>	<u>522,467,080</u>
Accumulated depreciation					
At 1 January 2022	–	8,950,205	33,936,421	–	42,886,626
Charge for the year (Note 9)	5,623,684	1,441,144	6,117,226	–	13,182,054
Disposals	(156,581)	(437,239)	(4,204)	–	(598,024)
Write-offs (Note 9)	–	(153,221)	(3,475,498)	–	(3,628,719)
At 31 December 2022	<u>5,467,103</u>	<u>9,800,889</u>	<u>36,573,945</u>	<u>–</u>	<u>51,841,937</u>
Net carrying amount as at 31 December 2022	<u>225,309,201</u>	<u>7,649,609</u>	<u>34,979,920</u>	<u>202,686,413</u>	<u>470,625,143</u>
At 31 December 2021					
At cost/valuation					
At 1 January 2021	254,033,081	16,053,322	44,224,612	195,184,101	509,495,116
Additions*	34,749,130	431,460	20,163,989	3,743,502	59,088,081
Disposals*	(40,428,964)	(684,436)	(311,751)	(2,409,040)	(43,834,191)
Write-offs (Note 9)	–	(224,593)	(1,359,306)	(15,000)	(1,598,899)
Reclassification	593,884	592,709	(592,709)	(593,884)	–
Transfer from prepayment	–	–	–	2,724,704	2,724,704
Impairment (Note 7)	(1,745,195)	–	–	–	(1,745,195)
Revaluation surplus (Note 30)	(404,557)	–	–	–	(404,557)
At 31 December 2021	<u>246,797,379</u>	<u>16,168,462</u>	<u>62,124,835</u>	<u>198,634,383</u>	<u>523,725,059</u>
Accumulated depreciation					
At 1 January 2021	13,337,362	8,235,479	29,278,264	–	50,851,105
Charge for the year (Note 9)	6,121,359	1,469,867	6,062,724	–	13,653,950
Disposals	(4,210,594)	(558,610)	(156,570)	–	(4,925,774)
Write-off (Note 9)	–	(196,531)	(1,247,997)	–	(1,444,528)
Revaluation (Note 30)	(15,248,127)	–	–	–	(15,248,127)
At 31 December 2021	<u>–</u>	<u>8,950,205</u>	<u>33,936,421</u>	<u>–</u>	<u>42,886,626</u>
Net carrying amount as at 31 December 2021	<u>246,797,379</u>	<u>7,218,257</u>	<u>28,188,414</u>	<u>198,634,383</u>	<u>480,838,433</u>

21. Property and equipment (contd.)

*In 2021, the Bank disposed of a premises with net book value of MNT 30,109,991 thousand to MIK in exchange for premises valued at MNT 34,069,934 thousand. The transaction had resulted in gain on disposal of MNT 3,959,943 thousand included within gain on disposal of property and equipment in Note 7.

Construction-in-progress account mainly consists of costs for construction of the Bank’s new office building. The Bank made a contract to build its new corporate head office with Riverstone (see Note 18). The building is expected to be completed in 2025.

Buildings are carried at fair value. Had these buildings been recognised under the cost model as at 31 December 2022, the carrying amount of land and buildings would have been MNT 141,827 million (2021: MNT 147,792 million). In 2021, the Bank engaged an accredited independent valuer, to determine the fair value of its land and buildings. The fair value is determined based on market comparable approach. Fair value hierarchy disclosures and valuation techniques used in measuring the fair value, including the description of significant inputs used are presented in Note 34.

22. Right-of-use assets and Lease liabilities

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

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

	Right-of-use assets	Lease liabilities
	MNT’000	MNT’000
As at 1 January 2021	10,132,850	(11,384,522)
Additions	2,636,768	(2,636,768)
Lease modification	575,218	(575,218)
Termination of lease	(313,649)	366,393
Depreciation charge for the year (Note 9)	(5,128,494)	–
Accretion of interest (Note 5)	–	(1,219,631)
Lease payments	–	6,450,083
As at 31 December 2021 and 1 January 2022	7,902,693	(8,999,663)
Additions	13,267,832	(13,267,832)
Lease modification	156,856	(156,856)
Termination of lease	(532,577)	578,632
Depreciation charge for the year (Note 9)	(5,345,669)	–
Accretion of interest (Note 5)	–	(990,130)
Lease payments	–	6,966,066
As at 31 December 2022	15,449,135	(15,869,783)

The Bank recognised rent expense from short-term leases of MNT 537,899 thousand for the year ended 31 December 2022 (2021: MNT 338,465 thousand). Also included within Utility expenses of Operating expenses are variable lease payments that do not depend on an index or rate of MNT 417,286 thousand for the year ended 31 December 2022 (2021: MNT 330,267 thousand). The maturity analysis of lease liabilities are disclosed in Note 36.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

23. Intangible assets

	2022	2021
	MNT'000	MNT'000
At cost		
At 1 January	16,810,552	16,495,667
Additions	732,935	333,455
Write-offs (Note 9)	(1,390,210)	(18,570)
At 31 December	<u>16,153,277</u>	<u>16,810,552</u>
Accumulated amortisation		
At 1 January	14,476,139	12,121,253
Charge for the year (Note 9)	1,644,302	2,373,456
Write-offs (Note 9)	(1,388,525)	(18,570)
At 31 December	<u>14,731,916</u>	<u>14,476,139</u>
Net carrying amount	<u>1,421,361</u>	<u>2,334,413</u>

24. Due to banks and other financial institutions

	2022	2021
	MNT'000	MNT'000
Current accounts from banks and financial institutions	32,154,080	12,924,589
Time deposits from banks and financial institutions	966,154	1,014,124
	<u>33,120,234</u>	<u>13,938,713</u>

At 31 December 2022, time deposits included deposit from local banks denominated in MNT with interest rate of 11.00% per annum and original maturity from 3 months (2021: time deposits denominated in MNT with interest rate of 7.80% per annum on MNT and original maturity from 16 to 25 months).

25. Repurchase agreements

	2022	2021
	MNT'000	MNT'000
Asset backed securities program	<u>316,804,791</u>	<u>289,792,528</u>

The Bank entered into long-term reverse repurchase agreement with BoM, whereas as of 31 December 2022 the Bank sold unquoted BoM bills amounting MNT 308 billion in total (2021: MNT 248 billion). The agreements were conducted under an asset backed security program being implemented, upon which the Bank shall disburse the financing to eligible borrowers and could sell these loans to SFC in return for LBS (See Note 17). The agreements bear annual interests ranging between 6% to 10.5% and latest one shall mature in February 2025.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

26. Due to customers

	2022	2021
	MNT'000	MNT'000
Government deposits		
- Current accounts	200,593,243	261,563,528
- Time deposits	149,942,889	129,848,194
- Guarantee and LC fund	12,577,697	10,460,656
Private sector deposits		
- Current accounts	1,689,010,924	1,570,264,127
- Time deposits	424,943,942	743,461,733
- Guarantee and LC fund	37,019,564	46,873,848
- Other	1,014,659	1,330,218
- Demand deposits	-	13,116
Individual deposits		
- Time deposits	2,702,594,819	2,588,822,991
- Current accounts	546,925,896	444,023,215
- Demand deposits	441,745,295	467,962,077
- Guarantee and LC fund	-	876,737
- Other	940,477	810,079
	<u>6,207,309,405</u>	<u>6,266,310,519</u>

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

27. Borrowed funds

	2022	2021
	MNT'000	MNT'000
Borrowed funds from foreign banks and financial institutions		
VTB Bank Russia*	241,357,148	196,497,229
Commerzbank AG	176,150,962	149,087,042
Cargill financial services international, INC	86,300,410	71,245,689
Cargill International Trading Pte Ltd	76,846,806	–
China Development Bank	58,912,615	29,460,000
International Investment Bank	53,027,218	42,946,483
Exim Bank of Russia	46,497,004	37,973,265
International Bank for Economic Co-operation	34,452,229	41,231,474
Huishang Bank	31,190,651	–
Bunge Asia Pte Ltd	28,798,867	77,558,817
Asian Development Bank	22,194,269	23,623,213
Japan International Cooperation Agency	14,754,155	16,381,458
Liger Holding International Co.Ltd	14,247,696	11,395,200
Credit Bank of Moscow	11,347,971	13,051,403
Atlantic Forfaitierungs AG	10,091,983	17,203,873
Sumitomo Mitsui Banking Corporation	6,691,150	–
Erste Group Bank AG	5,459,048	1,014,785
Fintertech Co., Ltd	3,991,596	2,872,198
Intesa Sanpaolo SPA	3,144,687	5,431,571
Crowdcredit Estonia OU	1,564,481	–
Kreditanstalt fuer Wiederaufbau	1,545,300	3,204,355
International Development Association	1,175,667	1,040,862
China Trade Solutions	980,810	1,042,136
Deutsche Zentral-Genossenschaftsbank	469,301	–
Oddo BHF AG	386,853	6,586,173
The Export-Import Bank of Republic of China	272,746	561,877
World Bank	153,960	184,668
Transkapitalbank	–	21,373,394
Crown Agents Bank Limited	–	19,715,815
Borrowed funds from government organizations		
Mortgage Financing Programme by BoM and the Ministry of Finance	270,355,583	245,032,794
Bank of Mongolia - Petroleum project	212,351,132	100,032,877
Employment support programme	3,300,000	–
Ministry of Finance	817,247	788,392
Education loan fund	1,650	2,453
"Gold-2" programme financing by BoM	–	271,199,386
Development Bank of Mongolia	–	1,001,247
	<u>1,418,831,195</u>	<u>1,408,740,129</u>

Borrowings are all unsecured except for the funds obtained from Commerzbank AG with outstanding balance of USD 50 million (2021: USD 50 million). The funds obtained from Commerzbank AG is secured by a cash deposit amounting to MNT 172.2 billion included within the placement with foreign bank as cash collateral (Note 13). The funds obtained from BoM under "Gold-2" programme was secured by unquoted BoM treasury bills with face value of MNT 247.1 billion in 2021 which was fully settled in 2022.

*In February 2023, the borrowings obtained from VTB Bank Russia with an outstanding balance of MNT 241 billion as of 31 December 2022 had matured and was fully repaid by the Bank.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

27. Borrowed funds (contd.)

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

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

In the case of non-compliance with covenants, the borrowing may become payable on demand, subject to the outcome of remedial actions of the Bank and waiver negotiations between the lender and the Bank. For this reason, the Bank monitors its compliance with BoM prudential ratios and other debt covenants on a monthly basis (See Note 37).

As at 31 December 2022, the Bank has breached the financial covenant specifying Non-performing loan ratio and Open credit exposure ratio requirements on borrowings from China Development Bank and International Investment Bank respectively. The Bank is currently in a process of obtaining the respective waiver from the foreign banks.

28. Debt securities issued

	2022 MNT'000	2021 MNT'000
Debt securities issued in domestic market	—	160,140,274

Under Troubled Asset Relief Program, the Bank issued MNT 160 billion debt securities to BoM on 28 June 2016. The debt securities bore annual interest rate of 8.0% and had matured and fully repaid on 29 June 2022.

29. Other liabilities

	2022 MNT'000	2021 MNT'000
Liabilities for loans sold to MIK with recourse (Note 17)	158,847,086	200,678,622
Delay on clearing settlement	70,634,681	47,268,907
Payables to entities and individuals	8,354,609	22,908,279
Taxes payable other than income tax	8,251,077	1,221,633
Provision on off-balance sheet commitments (Note 32)	4,941,386	7,321,963
Deferred revenue and income	5,208,858	5,790,831
Contract liability (unearned fees and commission)	2,735,890	2,451,940
Deferred grant	385,873	—
Computer lease payable	85,271	450,982
Others	1,038,854	976,808
	<u>260,483,585</u>	<u>289,069,965</u>

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

The Bank entered into a grant support agreement in support of the Green Climate Fund (“GCF”) Readiness and Preparatory Support Program: “Upscale the Sustainable and Green Finance Practices in Mongolia” with United Nations Office for Project Services (“UNOPS”) on 27 May 2022. As part of the Readiness Support programme, UNOPS has granted the Bank total amount of USD 291,772 to accelerate the private sector's contribution to achieving Mongolia's critical climate and development policy targets. The implementation period of this grant is for 2 years. The Bank received the first tranche of the grant in an amount of USD 180,000 upon signing of the agreement, and as of 31 December 2022 the outstanding balance of the grant was USD 122,023. The total amortisation for the year amounted to MNT 232,737 million (See Note 7).

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

All unearned fees and commissions at the end of the previous year have been recognised as revenue in the current year.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

30. Share capital, Share premium and Other reserves

Share capital and share premium

	Number of ordinary shares		Share capital		Share premium	
	2022	2021	2022 MNT'000	2021 MNT'000	2022 MNT'000	2021 MNT'000
At 1 January	4,807,082	4,807,082	323,809,925	72,723,171	–	251,086,754
Issued during the year	6	–	404	–	664	–
Transfer	–	–	–	251,086,754	–	(251,086,754)
At 31 December	4,807,088	4,807,082	323,810,329	323,809,925	664	–

The Bank has 5,000,000 shares authorized for issue (2021: 5,000,000 shares) from which total of 4,807,088 shares were issued and outstanding as of 31 December 2022 (2021: 4,807,082 shares). All issued shares were fully paid and have a par value of MNT 67,361.01 (2021: MNT 67,361.01).

On 22 April 2022, the shareholders of the Bank approved to issue additional 6 number of shares at MNT 178,000 per share at total cash consideration of MNT 1,068,000 to its existing shareholder, thus increasing its issued share capital.

The shareholders of the Bank as of 31 December 2022 and 2021 and percentage of ownership are as follows:

	2022	2021
The Globull Investment and Development PTE Ltd (Globull)	64.00%	64.00%
TDB Capital LLC (former United Banking Corporation LLC)	31.25%	31.25%
GS Mongolia Investment Limited (Goldman Sachs)	3.28%	3.28%
Other individual and shareholders	1.47%	1.47%
	100.00%	100.00%

Other reserves

	Asset revaluation reserve MNT'000	FVOCI revaluation reserve MNT'000	Regulatory reserve MNT'000	Total MNT'000
At 1 January 2022	151,189,070	4,357,074	54,597,188	210,143,332
Net loss on FVOCI instruments	–	(1,753,929)	–	(1,753,929)
Deferred tax liability	–	175,393	–	175,393
Transfer of revaluation reserve due to disposal	(5,537,618)	–	–	(5,537,618)
Net changes in allowance for ECL on debt instruments at FVOCI	–	226,875	–	226,875
Movement on regulatory reserve	–	–	55,654,927	55,654,927
At 31 December 2022	145,651,452	3,005,413	110,252,115	258,908,980
At 1 January 2021	168,958,820	24,257,321	27,165,494	220,381,635
Gain on revaluation of premises (Note 21)	14,843,570	–	–	14,843,570
Net loss on FVOCI instruments	–	(22,479,498)	–	(22,479,498)
Deferred tax liability	–	2,247,950	–	2,247,950
Transfer of revaluation reserve due to disposal	(32,613,320)	–	–	(32,613,320)
Net changes in allowance for ECL on debt instruments at FVOCI	–	331,301	–	331,301
Movement on regulatory reserve	–	–	27,431,694	27,431,694
At 31 December 2021	151,189,070	4,357,074	54,597,188	210,143,332

As of 31 December 2022 and 2021, the regulatory reserve consist of impairment for foreclosed assets and loans and advances to customers.

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

Dividend

On 21 April 2022, the Bank has declared a dividend of MNT 34,995,557 thousand to its shareholders in proportion to their ownership. The BoM had approved the dividend disbursement on 7 July 2022. As of 31 December 2022, MNT 1,154,440 thousand of dividend has not yet been paid out and is included within other liabilities.

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

31. Segment reporting

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

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

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

Operating segments

The Bank comprises the following main operating segments:

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

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

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

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

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

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

As the Bank's operations are located in Mongolia, no further geographical segment information is provided. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

31. Segment reporting (contd.)

At 31 December 2022	Corporate Banking MNT'000	SME Banking MNT'000	Retail Banking MNT'000	International Banking MNT'000	Treasury MNT'000	Other MNT'000	Total MNT'000
Segment results							
External revenue							
Interest income	304,387,400	56,261,659	103,970,776	–	203,607,492	5,850,725	674,078,052
Interest expense	(88,200,886)	(15,415,103)	(181,398,267)	(42,973,852)	(26,319,217)	(170,791)	(354,478,116)
Fee and commission income	20,408,452	16,569,869	21,438,904	237,071	10,706,922	8,600,057	77,961,275
Fee and commission expenses	(1,906)	–	–	–	(23,104,064)	(4,406,703)	(27,512,673)
Trading and other operating income/(expense), net	(28,156,169)	2,608,559	(4,780,723)	231,257	45,715,867	(1,693,866)	13,924,925
Intersegment revenue/(expense)	(126,831,588)	(9,332,893)	134,859,869	52,683,986	–	(51,379,374)	–
Total segment revenue/(expense)	81,605,303	50,692,091	74,090,559	10,178,462	210,607,000	(43,199,952)	383,973,463
Operating expense	8,665,149	3,176,080	7,043,423	3,557,898	3,369,524	146,978,817	172,790,891
Share of profit of an associate	–	–	–	–	–	(418,388)	(418,388)
Credit loss expense on financial assets	(34,120,698)	(20,727,029)	(1,083,596)	–	17,860	27,615,624	(28,297,839)
Profit/(loss) before tax	107,060,852	68,243,040	68,130,732	6,620,564	207,219,616	(217,376,005)	239,898,799
Income tax expense	–	–	–	–	–	45,650,106	45,650,106
Net profit/(loss) for the year	107,060,852	68,243,040	68,130,732	6,620,564	207,219,616	(263,026,111)	194,248,693
Segment assets	3,151,006,341	415,621,165	899,853,374	31,326	4,467,505,648	720,759,848	9,654,777,702
Segment liabilities	2,262,065,368	874,190,809	3,762,806,775	914,642,725	572,649,032	90,411,729	8,476,766,438
Depreciation and amortisation	45,592	24,604	28,923	21,752	16,418	20,034,736	20,172,025
Capital expenditure*	–	–	–	–	732,935	33,499,527	34,232,462

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

31. Segment reporting (contd.)

At 31 December 2021	Corporate Banking MNT'000	SME Banking MNT'000	Retail Banking MNT'000	International Banking MNT'000	Treasury MNT'000	Other MNT'000	Total MNT'000
Segment results							
External revenue							
Interest income	230,125,054	61,153,689	98,545,040	–	205,649,650	1,634,032	597,107,465
Interest expenses	(150,616,576)	(21,876,275)	(196,492,636)	(20,832,262)	(15,517,778)	(301,035)	(405,636,562)
Fee and commission income	18,483,593	13,291,538	17,803,697	9,735,152	518,897	5,404,118	65,236,995
Fee and commission expenses	(2,543)	–	(16,719,066)	(57)	(140,497)	(3,938,692)	(20,800,855)
Trading and other operating income/(expense), net	(21,379,859)	2,352,915	(6,734,783)	–	7,905,694	4,450,435	(13,405,598)
Intersegment revenue/(expense)	(79,985,571)	(880,553)	160,145,132	24,175,169	(163,375,933)	59,921,756	–
Total segment revenue	(3,375,902)	54,041,314	56,547,384	13,078,002	35,040,033	67,170,614	222,501,445
Operating expense	9,910,135	2,613,950	5,296,645	4,211,034	2,809,330	106,097,469	130,938,563
Share of loss of an associate	–	–	–	–	–	28,728,932	28,728,932
Credit loss expense/(reversal) on financial assets	(48,443,708)	(2,274,800)	(24,307,745)	–	(30,386)	17,351,090	(57,705,549)
Profit/(loss) before tax	35,157,671	53,702,164	75,558,484	8,866,968	32,261,089	(85,006,877)	120,539,499
Income tax expense	–	–	–	–	–	15,729,066	15,729,066
Net profit/(loss) for the year	35,157,671	53,702,164	75,558,484	8,866,968	32,261,089	(100,735,943)	104,810,433
Segment assets	3,321,669,894	479,270,138	935,808,687	23,289	4,112,722,977	699,176,830	9,548,671,815
Segment liabilities	2,766,670,792	992,344,518	3,544,265,433	759,100,506	424,148,842	42,033,004	8,528,563,095
Depreciation and amortisation	27,282	14,866	5,149,002	14,078	9,047	15,941,625	21,155,900
Capital expenditure*	2,424	816	–	5,128	880	25,342,353	25,351,601

*Represents total cash additions to property and equipment and intangible assets.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

32. Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 33).

	2022 MNT'000	2021 MNT'000
Uncovered Guarantees and Letters of credit	321,497,517	352,804,653
Undrawn credit lines	248,247,384	297,095,737
	<u>569,744,901</u>	<u>649,900,390</u>

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

	Uncovered Guarantees and Letters of credit MNT'000	Undrawn credit lines MNT'000	Total MNT'000
ECL allowance as at 1 January 2022	3,302,522	4,019,441	7,321,963
New exposures	2,066,586	1,194,407	3,260,993
Exposures derecognised or matured/lapsed	(2,802,500)	(2,839,070)	(5,641,570)
Net charge/(reversal) for the year (Note 8)	(735,914)	(1,644,663)	(2,380,577)
Foreign exchange adjustments	–	–	–
At 31 December 2022	<u>2,566,608</u>	<u>2,374,778</u>	<u>4,941,386</u>
ECL allowance as at 1 January 2021	14,824,112	1,745,691	16,569,803
New exposures	2,515,836	3,316,564	5,832,400
Exposures derecognised or matured/lapsed	(14,037,775)	(1,042,814)	(15,080,589)
Net charge/(reversal) for the year (Note 8)	(11,521,939)	2,273,750	(9,248,189)
Foreign exchange adjustments	349	–	349
At 31 December 2021	<u>3,302,522</u>	<u>4,019,441</u>	<u>7,321,963</u>

An analysis of changes in the outstanding exposures and the corresponding ECL allowance as at 31 December 2022 and 31 December 2021 including credit quality is, as follows:

Uncovered Guarantees and Letters of credits

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2022	312,654,951	–	40,149,702	352,804,653
New exposures	247,969,388	2,433,577	–	250,402,965
Exposures derecognised or matured/lapsed	(194,816,405)	(58,863,400)	(28,030,296)	(281,710,101)
Transfer to/(from) Stage 1	11,200,744	–	(11,200,744)	–
Transfer to/(from) Stage 2	(68,239,049)	68,239,049	–	–
Transfer to/(from) Stage 3	–	–	–	–
At 31 December 2022	<u>308,769,629</u>	<u>11,809,226</u>	<u>918,662</u>	<u>321,497,517</u>
ECL allowance as at 1 January 2022	2,538,355	–	764,167	3,302,522
New exposures	2,043,902	22,684	–	2,066,586
Exposures derecognised or matured/lapsed	(1,054,469)	(983,864)	(764,167)	(2,802,500)
Transfer to/(from) Stage 1	–	–	–	–
Transfer to/(from) Stage 2	(1,015,812)	1,015,812	–	–
Transfer to/(from) Stage 3	–	–	–	–
At 31 December 2022	<u>2,511,976</u>	<u>54,632</u>	<u>–</u>	<u>2,566,608</u>

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

32. Contingent liabilities and commitments (contd.)

Uncovered Guarantees and Letters of credits (contd.)

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

Credit quality of gross carrying amounts as at 31 December 2022 and 2021:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2022				
Performing	308,769,629	–	–	308,769,629
Special mention	–	11,809,226	–	11,809,226
Substandard	–	–	918,662	918,662
Doubtful	–	–	–	–
Loss	–	–	–	–
Total	308,769,629	11,809,226	918,662	321,497,517
At 31 December 2021				
Performing	312,654,951	–	–	312,654,951
Special mention	–	–	40,149,702	40,149,702
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
Total	312,654,951	–	40,149,702	352,804,653

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

32. Contingent liabilities and commitments (contd.)

Undrawn credit balances

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2022	284,295,098	11,612,186	1,188,453	297,095,737
New exposures	122,319,732	4,044,473	–	126,364,205
Exposures derecognised or matured/lapsed	(163,126,077)	(11,154,106)	(932,375)	(175,212,558)
Transfer to/(from) Stage 1	767,165	(453,445)	(313,720)	–
Transfer to/(from) Stage 2	(724,592)	769,941	(45,349)	–
Transfer to/(from) Stage 3	(186,520)	(1,991)	188,511	–
At 31 December 2022	243,344,806	4,817,058	85,520	248,247,384
ECL allowance as at 1 January 2022	3,983,938	35,503	–	4,019,441
New exposures	1,167,930	26,477	–	1,194,407
Exposures derecognised or matured/lapsed	(2,816,054)	(22,256)	(760)	(2,839,070)
Transfer to/(from) Stage 1	13,737	(13,737)	–	–
Transfer to/(from) Stage 2	(7,825)	7,825	–	–
Transfer to/(from) Stage 3	(739)	(30)	769	–
At 31 December 2022	2,340,987	33,782	9	2,374,778
	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Outstanding exposure as at 1 January 2021	249,364,112	21,129,401	5,053,877	275,547,390
New exposures	166,605,550	10,895,014	–	177,500,564
Exposures derecognised or matured/lapsed	(131,455,487)	(18,613,031)	(5,883,699)	(155,952,217)
Transfer to/(from) Stage 1	1,419,311	(1,024,747)	(394,564)	–
Transfer to/(from) Stage 2	(651,704)	718,483	(66,779)	–
Transfer to/(from) Stage 3	(986,684)	(1,492,934)	2,479,618	–
At 31 December 2021	284,295,098	11,612,186	1,188,453	297,095,737
ECL allowance as at 1 January 2021	1,566,649	173,398	5,644	1,745,691
New exposures	3,284,190	32,374	–	3,316,564
Exposures derecognised or matured/lapsed	(972,924)	(67,357)	(2,533)	(1,042,814)
Transfer to/(from) Stage 1	109,380	(103,736)	(5,644)	–
Transfer to/(from) Stage 2	(2,242)	2,242	–	–
Transfer to/(from) Stage 3	(1,115)	(1,418)	2,533	–
At 31 December 2021	3,983,938	35,503	–	4,019,441

32. Contingent liabilities and commitments (contd.)

Undrawn credit balances (contd.)

Credit quality of gross carrying amounts as at 31 December 2022 and 2021:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2022				
Performing	243,344,806	–	–	243,344,806
Special mention	–	4,817,058	–	4,817,058
Substandard	–	–	85,520	85,520
Doubtful	–	–	–	–
Loss	–	–	–	–
Total	243,344,806	4,817,058	85,520	248,247,384
At 31 December 2021				
Performing	284,295,098	–	–	284,295,098
Special mention	–	11,612,186	–	11,612,186
Substandard	–	–	1,188,453	1,188,453
Doubtful	–	–	–	–
Loss	–	–	–	–
Total	284,295,098	11,612,186	1,188,453	297,095,737

As of 31 December 2022, the Bank had capital commitments for construction in progress of USD 89 million (2021: USD 98 million) (Note 18 and 21) and other contractual commitments of MNT 1,030 million (2021: nil).

Contingent liabilities

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

Commitments

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

Undrawn credit lines

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

Legal claims

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

As at 31 December 2022 and 2021, there were no major litigation cases involving the Bank.

Tax legislation

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

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

32. Contingent liabilities and commitments (contd.)

Tax legislation (contd.)

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

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

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

33. Risk management

(1) Introduction

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

Risk management structure

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

Representative Governing Board ("RGB")

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

Internal Audit

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

Executive Committee

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

Asset and Liability Committee ("ALCO")

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

Risk Management Committee ("RMC")

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

33. Risk management (contd.)

Credit Committees

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

1. Credit committee is responsible for the overall credit policies and procedures of the Bank and currently approves all credit exposures above MNT 1 billion.
2. Credit subcommittee is responsible for approving all credit exposures above MNT 500 million and up to MNT 1 billion.
3. Credit council is responsible for approving all credit exposures exceeding branch credit authorization limit and up to MNT 500 million.
4. Branch credit council approves all loans except for salary and pension loan that amounts exceeding authorization limits of Branch director and up to authorization limit of Branch credit council
5. Credit council approves salary and pension loans exceeding MNT 30 million.
6. Branch credit council, depending on the branch size approves credit exposures from MNT 60 million up to MNT 180 million.

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

Risk measurement and reporting system

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

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

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

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

Risk mitigation

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

Excessive Risk Concentration

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

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

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

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

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

33. Risk management (contd.)

(2) Credit risk

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

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

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

Credit-related Commitments Risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Impairment assessment

Definition of default, impaired and cure

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

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

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

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

The Bank's internal rating and PD estimation process

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

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

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

33. Risk management (contd.)

(2) Credit risk (contd.)

Treasury, trading and interbank relationships

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

Corporate and SME loans

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

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

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

Retail loans

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

The Bank’s internal credit rating grades

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

Exposure at default

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

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

33. Risk management (contd.)

(2) Credit risk (contd.)

Exposure at default (contd.)

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

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

Loss given default

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

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

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

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

Significant increase in credit risk

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

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

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

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

Grouping financial assets measured on collective basis

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

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

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

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

- Corporate loans
- SME loans
- Retail loans

33. Risk management (contd.)

(2) Credit risk (contd.)

Analysis of inputs to ECL model – forward looking information

The Bank has incorporated the effect of future macroeconomic developments into the ECL by applying forward-looking information on the component of the ECL, the PD. A simple linear model was built to analyse the relationship between the observed default rates and macroeconomic variables. The data set includes quarterly time series of main macro indicators and probability of default per customer segment. Macroeconomic variables are taken from the database of the National Statistical Office and BoM, and PD rates are derived from the bank's internal database. The Bank has selected Policy rate and Inflation rate with one year quarter lag for Retail and GDP and Credit growth for SME and Corporate loans for 2022 (for 2021, GDP growth with one year quarter lag and Policy rate for Retail, SME and Corporate loans), which had the highest correlation with the default rate.

In terms of the methodology, correlation analysis was conducted initially to preselect the suitable macroeconomic variables. Then coefficients were estimated applying simple regression analysis. From the estimated coefficients and forecasts, adjustment factors to incorporate forward-looking information into PD were derived as the ratio between the predicted default rate and historical average default rate. These adjustment factors and adjusted PD rates are considered as Base scenario for ECL model, as it represents the best prediction of the future economic development. The good and bad scenarios are derived from historical adjustment factors based on the model predicted default rates and selected as certain quantiles of the adjustment factor distribution. Expected loss for different scenarios are calculated based on those estimated PD rates under the different scenarios, and the actual expected credit loss allowance is estimated as weights of 3 scenarios: 20% for Good and Bad, and 60% for Base scenario.

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

31 December 2022

	Corporate loans	SME loans	Retail loans
Bad case	2.1048	2.1048	1.6981
Base case	1.3574	1.3574	1.1363
Good case	0.4406	0.4406	0.4922

31 December 2021

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

Overview of modified and forborne loans

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

The table below shows the gross carrying amount of restructured financial assets with corresponding ECL for the year ended 31 December 2022 and 2021, as follow:

	2022	2021
	MNT'000	MNT'000
<i>Restructured loans</i>		
Gross carrying amount	56,806,027	64,091,637
Corresponding ECL	(21,933,646)	(30,898,992)

33. Risk management (contd.)

(2) Credit risk (contd.)

Analysis of risk concentration

Disclosure of credit quality and maximum exposure for credit risk based on the Bank's internal credit rating system and year-end stage classification are disclosed in Notes 12, 13, 14 and 17 where relevant.

The table below show the analysis per industry sector of the Bank's loans and advances to customers (Note 17) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

	Gross maximum exposure			
	2022 MNT'000	%	2021 MNT'000	%
Trading	989,179,347	21%	1,183,191,976	23%
Mining and quarrying	618,573,404	13%	910,296,524	18%
Construction	473,147,282	10%	520,921,588	10%
Financial service	355,983,175	8%	373,142,568	7%
Manufacturing	523,074,747	11%	515,616,099	10%
Mortgage loan	515,069,970	11%	517,222,290	10%
Card loan	278,200,090	6%	251,922,005	5%
Hotel, restaurant and tourism	151,931,463	3%	166,213,301	3%
Transportation and communication	168,262,695	4%	137,752,916	3%
Deposit collateralized loan	100,641,414	2%	93,026,232	2%
Health	30,018,101	1%	43,576,125	1%
Education	58,040,193	1%	80,961,554	2%
Electricity and thermal energy	19,875,704	0%	31,187,578	1%
Agriculture	23,345,917	1%	22,047,101	0%
Other	312,523,722	7%	271,721,499	5%
	4,617,867,224	100%	5,118,799,356	100%

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

Collateral and other credit enhancements

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

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

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

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

Disclosure of credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year end stage classification are further disclosed in Notes 12, 13, 14 and 17.

Where financial instruments are recorded at fair value the amounts shown in Note 14 represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

33. Risk management (contd.)

(2) Credit risk (contd.)

Collateral and other credit enhancements (contd.)

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

	2022		2021	
	Gross MNT'000	Fair value of collaterals MNT'000	Gross MNT'000	Fair value of collaterals MNT'000
Corporate	3,238,302,119	2,184,315,132	3,672,863,022	2,652,553,356
SME	420,167,378	389,174,705	535,436,302	477,497,748
Retail	628,521,161	647,754,740	572,177,859	319,753,238
	4,286,990,658	3,221,244,577	4,780,477,183	3,449,804,342

Credit concentration ratio

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

As at 31 December 2021, certain loans disbursed to single borrower and its' group of related borrowers exceeded the regulatory ratio limit on the single borrower exposure of 20%. The total excess amount was MNT 4,259 million, which was adjusted when assessing core capital adequacy and risk-weighted capital ratios (See Note 37). There were no such breaches as at 31 December 2022.

(3) Liquidity risk

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

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

Exposure to liquidity risk

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

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

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

	2022	2021
At 31 December	43.4%	40.6%

Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial assets and financial liabilities at 31 December 2022 and 2021 based on contractual undiscounted repayment obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(3) Liquidity risk (contd.)

Analysis of financial assets and financial liabilities by remaining contractual maturities (contd.)

At 31 December 2022	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Financial assets							
Cash and balances with Bank of Mongolia	894,574,372	862,425,315	–	–	–	–	1,756,999,688
Due from other banks and financial institutions	604,503,816	162,788,478	–	–	–	–	767,292,294
Financial investments	–	599,363,877	342,187,217	275,776,071	358,963,322	684,426,096	2,260,716,583
Gross settled swaps:							
- Inflows	–	282,913,155	139,256,202	218,641,936	790,922,559	–	1,431,733,852
- Outflows	–	(235,350,417)	(128,895,332)	(196,375,805)	(606,584,744)	–	(1,167,206,298)
Loans and advances to customers	616,534,166	580,849,138	457,103,700	1,459,680,496	1,683,555,250	1,115,064,950	5,912,787,700
Other financial assets	29,546,378	17,757,526	400,965	615,039	116,839,519	–	165,159,428
	<u>2,145,158,733</u>	<u>2,270,747,073</u>	<u>810,052,752</u>	<u>1,758,337,737</u>	<u>2,343,695,906</u>	<u>1,799,491,046</u>	<u>11,127,483,247</u>
Financial liabilities							
Due to banks and other financial institutions	32,154,100	971,557	–	–	–	–	33,125,657
Repurchase agreements	–	34,008,500	155,797,971	89,725,369	50,324,598	–	329,856,439
Due to customers	2,959,462,153	909,434,848	646,073,155	1,131,845,094	756,958,947	18,698,206	6,422,472,402
Gross settled swaps:							
- Inflows	–	18,964,043	18,775,430	39,471,074	537,066,596	–	614,277,143
- Outflows	–	(22,893,227)	(16,498,851)	(35,609,830)	(693,809,266)	–	(768,811,174)
Borrowed funds	112,757,080	357,969,027	4,711,828	667,258,150	252,205,602	74,734,328	1,469,636,016
Lease liabilities	–	1,762,365	1,762,365	3,478,172	11,843,553	–	18,846,455
Other financial liabilities	–	80,113,415	–	180,389,295	–	–	260,502,710
Uncovered Guarantees and Letters of credit	321,497,517	–	–	–	–	–	321,497,517
Undrawn credit lines	248,247,384	–	–	–	–	–	248,247,384
	<u>3,674,118,234</u>	<u>1,380,330,528</u>	<u>810,621,899</u>	<u>2,076,557,324</u>	<u>914,590,030</u>	<u>93,432,534</u>	<u>8,949,650,548</u>
	<u>(1,528,959,501)</u>	<u>890,416,545</u>	<u>(569,147)</u>	<u>(318,219,587)</u>	<u>1,429,105,876</u>	<u>1,706,058,513</u>	<u>2,177,832,699</u>

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(3) Liquidity risk (contd.)

Analysis of financial assets and financial liabilities by remaining contractual maturities (contd.)

At 31 December 2021	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Financial assets							
Cash and balances with Bank of Mongolia	976,548,511	8,017,940	-	-	-	-	984,566,451
Due from other banks and financial institutions	405,038,221	101,772,804	-	-	-	-	506,811,025
Financial investments	60,692,439	1,271,633,439	93,249,457	241,384,642	939,200,934	634,783,058	3,240,943,969
Gross settled swaps:							
- Inflows	-	863,327,381	1,245,156	2,147,447	135,860,418	-	1,002,580,402
- Outflows	-	(798,718,006)	(2,623,675)	(3,897,800)	(137,754,694)	-	(942,994,175)
Loans and advances to customers	649,683,374	638,054,503	479,178,506	1,119,480,176	2,815,075,468	1,385,374,372	7,086,846,399
Other financial assets	126,484,571	7,701,212	-	-	-	-	134,185,783
	<u>2,218,447,116</u>	<u>2,091,789,273</u>	<u>571,049,444</u>	<u>1,359,114,465</u>	<u>3,752,382,126</u>	<u>2,020,157,430</u>	<u>12,012,939,854</u>
Financial liabilities							
Due to banks and other financial institutions	12,938,713	-	-	1,057,485	-	-	13,996,198
Repurchase agreements	-	-	-	31,917,764	279,002,309	-	310,920,073
Due to customers	2,810,243,953	1,117,061,112	704,809,250	1,169,427,606	617,578,194	23,249,103	6,442,369,218
Gross settled swaps:							
- Inflows	-	(802,772,467)	-	(9,298,099)	(310,630,156)	-	(1,122,700,722)
- Outflows	-	872,643,457	-	2,687,736	301,286,951	-	1,176,618,144
Borrowed funds	117,283,832	112,766,644	17,883,897	257,832,573	965,512,018	46,555,619	1,517,834,583
Debt securities issued	-	-	166,382,466	-	-	-	166,382,466
Lease liabilities	-	1,703,352	1,703,352	3,394,578	3,751,781	-	10,553,063
Other financial liabilities	-	73,958,633	-	-	255,519,365	1,300,946	330,778,944
Uncovered Guarantees and Letters of credit	352,804,653	-	-	-	-	-	352,804,653
Undrawn credit lines	297,095,737	-	-	-	-	-	297,095,737
	<u>3,590,366,888</u>	<u>1,375,360,731</u>	<u>890,778,965</u>	<u>1,457,019,643</u>	<u>2,112,020,462</u>	<u>71,105,668</u>	<u>9,496,652,357</u>
	<u>(1,371,919,772)</u>	<u>716,428,542</u>	<u>(319,729,521)</u>	<u>(97,905,178)</u>	<u>1,640,361,664</u>	<u>1,949,051,762</u>	<u>2,516,287,497</u>

33. Risk management (contd.)

(4) Market risk

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

Interest rate risk

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

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

	Change in basis points	Sensitivity of net interest income MNT'000	Risk limit set for profit or loss MNT'000	Sensitivity of equity MNT'000	Risk limit set for equity MNT'000
At 31 December 2022					
Currency					
USD	+/- 100	+/- 153,528	+/- 275,730,685	+/- 138,175	+/- 275,730,685
MNT	+/- 100	+/- 29,217,621	+/- 275,730,685	+/- 26,295,859	+/- 275,730,685
OTHER	+/- 100	+/- 687,465	+/- 275,730,685	+/- 618,719	+/- 275,730,685
At 31 December 2021					
Currency					
USD	+/- 100	+/- 5,740,349	+/- 241,711,954	+/- 5,166,314	+/- 241,711,954
MNT	+/- 100	+/- 32,308,020	+/- 241,711,954	+/- 29,077,218	+/- 241,711,954
OTHER	+/- 100	+/- 2,215,464	+/- 241,711,954	+/- 1,993,918	+/- 241,711,954

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ALCO sets limits on the level of exposure by currencies (primarily USD), which are monitored on a frequent basis. The Bank manages its currency risk primarily through ensuring compliance with the prudential ratio for foreign currency open position established by the BoM and through assessing the impact of foreign currency exchange rate movements on the Bank's liquidity and profitability. Also the Bank uses limits, calculated using Value-at-Risk method, for foreign exchange risk management. ALCO approves stop loss limits for overall currency positions on a quarterly basis. Market Risk Department oversees that the currency exchange operations are managed within the approved limits.

Objectives and limitations of the VaR Methodology

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

33. Risk management (contd.)

(4) Market risk (contd.)

Currency risk (contd.)

Objectives and limitations of the VaR Methodology (contd.)

VaR limits have been established for all foreign currency open positions and exposures are reviewed daily against the limits by management. The estimated potential one-day losses on its foreign currency denominated financial instruments, as calculated in the VAR models are the following:

	Historical Simulation	
	2022	2021
	MNT'000	MNT'000
31 December	(249,173)	(708,488)
Average Daily	(1,080,401)	(843,269)
Highest	(2,842,583)	(1,237,652)
Lowest	(152,528)	(83,473)

The table below summarizes the Bank's exposure to foreign exchange risk as at 31 December 2022 and 2021. Included in the table are the Bank's financial assets and liabilities at carrying amounts.

	MNT denominated MNT'000	2022 Foreign currencies MNT'000	Total MNT'000	MNT denominated MNT'000	2021 Foreign currencies MNT'000	Total MNT'000
Financial assets						
Cash and balances with						
Bank of Mongolia	254,823,322	1,501,383,972	1,756,207,294	217,353,302	758,998,935	976,352,237
Due from other banks and						
financial institutions	–	767,067,640	767,067,640	–	504,417,550	504,417,550
Financial investments	1,539,613,538	130,298,046	1,669,911,584	2,509,400,449	93,246,654	2,602,647,103
Derivative financial						
instruments	265,374,431	–	265,374,431	87,403,498	14,244,000	101,647,498
Loans and advances to						
customers	3,268,342,745	868,839,653	4,137,182,398	3,584,773,816	1,003,691,589	4,588,465,405
Other financial assets	89,000,307	18,420,858	107,421,165	74,311,973	14,026,959	88,338,932
	<u>5,417,154,343</u>	<u>3,286,010,169</u>	<u>8,703,164,512</u>	<u>6,473,243,038</u>	<u>2,388,625,687</u>	<u>8,861,868,725</u>
Financial liabilities						
Due to banks and other						
financial institutions	3,241,357	29,878,877	33,120,234	3,018,387	10,920,326	13,938,713
Repurchase agreements	316,804,791	–	316,804,791	289,792,528	–	289,792,528
Due to customers	3,162,766,558	3,044,542,847	6,207,309,405	4,033,034,308	2,233,276,211	6,266,310,519
Derivative financial						
instruments	166,203,537	–	166,203,537	78,035,961	–	78,035,961
Borrowed funds	526,637,791	892,193,404	1,418,831,195	660,996,891	747,743,238	1,408,740,129
Debt securities issued	–	–	–	160,140,274	–	160,140,274
Lease liabilities	15,869,783	–	15,869,783	8,999,663	–	8,999,663
Other financial liabilities	218,064,284	20,896,217	238,960,501	261,454,257	13,182,997	274,637,254
	<u>4,409,588,101</u>	<u>3,987,511,345</u>	<u>8,397,099,446</u>	<u>5,495,472,269</u>	<u>3,005,122,772</u>	<u>8,500,595,041</u>
Off-balance foreign currency exposure, net		<u>616,786,705</u>			<u>425,866,057</u>	
Net foreign currency exposure		<u>(84,714,471)</u>			<u>(190,631,028)</u>	

33. Risk management (contd.)

(4) Market risk (contd.)

Currency risk (contd.)

An analysis of the Bank's open position sensitivity to a 10 percent appreciation or depreciation of MNT against USD (assuming all other variables constant) is as follows:

	Change in currency rate	Sensitivity of open position MNT'000	Risk limit for net positions MNT'000
At 31 December 2022			
Currency			
USD	+/- 10%	+/- 7,875,319	+/- 230,000,000
OTHER	+/- 10%	+/- 352,184	+/- 230,000,000
At 31 December 2021			
Currency			
USD	+/- 10%	+/- 6,978,181	+/- 230,000,000
OTHER	+/- 10%	+/- 9,553,834	+/- 230,000,000

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income. If 20% of repayable financial instruments were prepaid at the beginning of the year, with all other variables held constant, the interest income for the year would be reduced by MNT 134,815,610 thousand (2021: MNT 114,665,796 thousand).

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

34. Fair value disclosures

Determination of fair value and fair value hierarchy

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

34. Fair value disclosures (contd.)

Determination of fair value and fair value hierarchy (contd.)

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

At 31 December 2022	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
<i>Debt instruments measured at FVOCI</i>				
Quoted government bonds	102,883,542	–	–	102,883,542
Unquoted BoM treasury bills	–	949,566,385	–	949,566,385
MIK USD bond	27,362,835	–	–	27,362,835
<i>Equity instruments measured at FVOCI</i>				
Unquoted equities	–	–	3,168,532	3,168,532
Quoted equities	70,359,946	–	–	70,359,946
<i>Financial assets at FVTPL</i>				
Residential mortgage-backed securities	–	–	260,184,968	260,184,968
Loan backed securities - Junior tranche	–	–	5,832,160	5,832,160
Loans and advances to customers at FVTPL	–	330,876,566	–	330,876,566
Derivative financial instruments	–	265,374,431	–	265,374,431
Non-financial assets				
Revalued properties	–	–	225,309,201	225,309,201
Investment properties	–	–	79,997,754	79,997,754
	200,606,323	1,545,817,382	574,492,615	2,320,916,320
Financial liabilities				
Derivative financial instruments	–	166,203,537	–	166,203,537
	–	166,203,537	–	166,203,537
At 31 December 2021				
Financial assets				
<i>Debt instruments measured at FVOCI</i>				
Quoted government bonds	58,774,436	–	–	58,774,436
Unquoted BoM treasury bills	–	1,661,230,725	–	1,661,230,725
MIK USD bond	34,429,486	–	–	34,429,486
<i>Equity instruments measured at FVOCI</i>				
Unquoted equities	–	–	3,395,537	3,395,537
Equity securities, at fair value	54,267,410	–	–	54,267,410
<i>Financial assets at FVTPL</i>				
Residential mortgage-backed securities	–	–	199,870,221	199,870,221
Loans and advances to customers at FVTPL	–	338,322,173	–	338,322,173
Derivative financial instruments	–	101,647,498	–	101,647,498
Non-financial assets				
Revalued properties	–	–	246,797,379	246,797,379
Investment properties	–	–	79,902,629	79,902,629
	147,471,332	2,101,200,396	529,965,766	2,778,637,494
Financial liability				
Derivative financial instruments	–	78,035,961	–	78,035,961
	–	78,035,961	–	78,035,961

Transfers between level 1, 2 and 3

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

34. Fair value disclosures (contd.)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2022 and 2021:

	Fair value 2022 MNT'000	2021 MNT'000	Valuation technique	Inputs
Financial assets				
Unquoted BoM treasury bills	949,566,385	1,661,230,725	Market value approach	Central bank policy and repo rates
Loans and advances to customers at FVTPL	330,876,566	338,322,173	Discounted Cash Flow approach	Future cash flows, PD, LGD and market interest rate of instruments
Derivative financial instruments	265,374,431	101,647,498	Discounted Cash Flow approach	Libor and SOFR rate, repo rate, government bond yield, exchange rate, commodity forward price, USD discount rate, PD
Financial liabilities				
Derivative financial instruments	166,203,537	78,035,961	Discounted Cash Flow approach	Libor and SOFR rate, repo rate, government bond yield, exchange rate, commodity forward price, USD discount rate, PD

The were no change in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2022 and 2021.

The disclosure of significant unobservable inputs and sensitivity to reasonably possible changes to inputs used in the fair value measurement for level 3 financial instrument is described below:

At 31 December 2022	Fair value MNT'000	Reasonable change	Sensitivity of the input to fair value MNT'000	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
Residential mortgage-backed securities	260,184,968	+/- 1%	+/- 2,601,850	Discounted Cash Flow method	Market interest rates	7.0% - 9.0%
Loan backed securities - Junior tranche	5,832,160	+/- 1%	+/- 58,322	Discounted Cash Flow method	Market interest rates	9.5%
Unquoted equities	3,168,532	+/- 10%	+/- 316,853	Net assets value	Market share price, Transaction price	MNT 1,000 - MNT 5,691,675
Non-financial assets						
Revalued properties	225,309,201	+/- 10%	+/- 22,530,920	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 0.5 million - 2.4 million per sq meter; MNT 2.5 - 8.7 million per sq.meters
Investment properties	79,997,754	+/- 10%	+/- 7,999,775	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 5.3 million - 8.2 million per sq.meters

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

34. Fair value disclosures (contd.)

At 31 December 2021	Fair value MNT'000	Reasonable change	Sensitivity of the input to fair value MNT'000	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
Residential mortgage-backed securities	199,870,221	+/- 1%	+/- 1,998,702	Discounted Cash Flow method	Market interest rates	7.0% - 9.0%
Unquoted equities	3,395,537	+/- 10%	+/- 339,554	Net assets value	Market share price, Transaction price	MNT 1,000 - MNT 5,691,675
Non-financial assets						
Revalued properties	246,797,379	+/- 10%	+/- 24,679,738	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 0.5 million - 2.4 million per sq meter; MNT 2.5 - 8.7 million per sq.meters
Investment properties	79,902,629	+/- 10%	+/- 7,990,263	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 5.2 million - 8.3 million per sq.meters

There were no changes in valuation techniques during the year ended 31 December 2022 and 2021. Management believes that the fair value of financial assets is unlikely to be materially different from their carrying value as of 31 December 2022.

Movements in fair value measurements within Level 3 during the year

	2022 MNT'000	2021 MNT'000
Residential mortgage-backed securities		
At 1 January	199,870,221	127,666,125
Addition	191,776,200	102,858,400
Sold	(147,530,300)	(36,061,600)
Interest accrued	19,265,652	14,266,919
Interest received	(3,196,805)	(8,859,623)
At 31 December	260,184,968	199,870,221
Loan backed securities - Junior tranche		
At 1 January	–	–
Addition	5,746,900	–
Interest accrued	278,965	–
Interest received	(193,705)	–
At 31 December	5,832,160	–
Unquoted equity		
At 1 January	3,395,537	7,313,358
Disposal	(227,005)	(3,917,821)
At 31 December	3,168,532	3,395,537

34. Fair value disclosures (contd.)

Movements in fair value measurements within Level 3 during the year (contd.)

	2022	2021
	MNT'000	MNT'000
Revalued properties		
At 1 January	246,797,379	240,695,719
Addition	–	34,749,130
Transfer	–	593,884
Disposal	(8,829,494)	(36,218,370)
Depreciation charged in profit or loss	(5,623,684)	(6,121,359)
Write-off	(7,035,000)	–
Revaluation	–	13,098,375
At 31 December	<u>225,309,201</u>	<u>246,797,379</u>
Investment properties		
At 1 January	79,902,629	148,990,218
Disposal	–	(20,898,204)
Transfer	–	(48,623,002)
Revaluation	95,125	433,617
At 31 December	<u>79,997,754</u>	<u>79,902,629</u>

Revaluation of properties and investment properties

The properties' fair values are based on valuations performed by an accredited independent valuer. The fair value of the land and buildings were determined using market approach. Market approach means that the valuations performed by the valuer were based on transactions and advertised process for similar buildings in the market, applying comparison adjustments for location, condition age, listing, and similar factors.

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

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia. Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments in the financial statements where there is a significant difference between the two values which are categorized in level 2.

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Notes to the financial statements - 31 December 2022

34. Fair value disclosures (contd.)

Fixed rate financial instruments (contd.)

As at 31 December 2022	Carrying amount MNT'000	Fair value MNT'000
Financial assets		
Loans and advances to customers	4,137,182,398	4,195,665,298
Debt instruments at amortised cost	250,553,216	252,759,224
Financial liabilities		
Due to customers	6,207,309,405	6,226,909,035
As at 31 December 2021		
Financial assets		
Loans and advances to customers	4,588,465,405	4,639,813,219
Investment securities held to maturity	590,679,288	601,122,783
Financial liabilities		
Due to customers	6,266,310,519	6,249,211,370

35. Related party disclosures

The following are considered as related parties of the Bank:

- Valiant Art LLC - The Bank's executive officer's immediate relative owns Valiant Art LLC
- TDB Securities LLC (former TDB Capital LLC), TDB Asset Management SC LLC – The companies are subsidiaries of TDB Capital LLC (former United Banking corporation LLC), the shareholder of the Bank
- MIK – An associate (see Note 15)
- Mongol General Leasing LLC and its subsidiaries (“MGLL”) – The Bank owns 10% equity interest in MGLL and the company is owned by close family member of beneficial owner of the Bank
- National News Corporation LLC (“NNC”) – The Bank owns 9.85% equity interest in NCC and the Bank's beneficial owner is BOD member of the company
- NNC Publishing LLC, JCDecaux LLC - The companies are subsidiaries of NNC
- CNB Consulting LLC (“CNB”) – CEO of CNB is immediate family member of the beneficial owner of the Bank
- Absolute Management LLC – The company is owned by close family member of beneficial owner of the Bank
- Times Media Corporation – The company is subsidiary of TDB Capital LLC
- Mongolian National Rare Earth Corporation LLC (“MNREC”) - in 2016, the Bank has repossessed the shares of MNREC in accordance with the terms and conditions of the loan agreement made between the Bank and the shareholders of MNREC, which stipulate that the shareholders of MNREC transfers 100% ownership of its shares to the Bank in the event of default on the loan. The repossessed shares were fully written-off in as of 31 December 2019.
- Key management personnel – Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors, Executive officers and their immediate relatives to be related parties.

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

35. Related party disclosures (contd.)

Significant transactions and balances with related parties as of 31 December 2022 and 2021 and for the years then ended were as follows:

At 31 December 2022	TDB	US Global			TDB	TDB	NNC		CNB	Absolute		Mongol	Times	TDB Asset		Beneficial	Key		
	Capital LLC*	Global LLC	Investment LLC	JCDecaux LLC	Securities LLC	Leasing LLC	LLC	LLC	LLC	LLC	LLC	General Leasing LLC	Media Corporatio n LLC	Valiant Art LLC	Management SC LLC	owner and its immediate family	Management Personnel		
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	
Balances																			
Deposit and accrued interest	1,020,494	361	320	3,629,237	67,692,020	2,643,944	16,019,311	262,769	13,282	107	7,676	4,828,309	675	84	9,951	813	95,618	845,952	
Loan and advances, accrued interest	7,857,045	-	-	-	10,026,377	-	18,862,957	-	-	9,010,151	-	11,811,345	-	-	-	-	67,651	1,949,644	
Receivables and prepayments	547,500	-	-	-	879,178	-	54,584	-	-	20,081,613	-	-	-	-	-	-	3,100,000	-	
RMBSS	-	-	-	-	260,184,968	-	-	-	-	-	-	-	-	-	-	-	-	-	
Quoted USD bonds	-	-	-	-	27,362,835	-	-	-	-	-	-	-	-	-	-	-	-	-	
Accrued interest payable on swap	-	-	-	-	3,024,561	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other liabilities	-	-	-	-	158,847,086	-	85,271	-	-	-	-	-	-	-	-	-	-	-	
Letter of credit and Letter of guarantee	-	-	-	-	-	2,540	-	-	-	-	-	-	-	-	-	-	-	-	
Undrawn credit line	-	-	-	-	-	3,674	4,598	-	-	-	-	478,216	-	-	-	-	717,590	540,681	
Derivative financial liability	-	-	-	-	160,848,700	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transactions																			
<i>Interest income on</i>																			
Loans and advances	898,594	-	-	-	1,469,179	36	2,405,516	-	-	422,844	-	678,061	-	-	-	-	-	8,716	197,909
Financial instruments	-	-	-	-	3,600,173	-	-	-	-	-	-	-	-	-	-	-	-	-	
RMBSS	-	-	-	-	19,265,652	-	-	-	-	-	-	-	-	-	-	-	-	-	
Swap	-	-	-	-	5,811,621	-	-	-	-	-	-	-	-	-	-	-	-	-	
<i>Interest expense on</i>																			
Deposits	-	-	-	158,302	26,665,840	72,084	371,276	-	-	-	-	-	-	-	-	-	-	313	38,490
Services obtained	-	-	-	213,840	-	547,498	718,302	5,850,833	-	-	-	-	-	263,148	-	-	-	-	
Commission income	15	12	12	483	2,008,901	890	11,689	3,251	216	37	36	4,105	26	76	320	13	818	4,881	
Remuneration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,703,582	

*Former United Banking Corporation LLC

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

35. Related party disclosures (contd.)

At 31 December 2021	United	Globull	JCDecaux LLC	MIK MNT'000	TDB	TDB	NNC	NNC	CNB	Absolute	Times Media Corporation	Valiant Art LLC	Beneficial owner and its immediate family	Key Management Personnel	
	Banking Corporation LLC	Investment and Development PTE Ltd			Securities LLC	Leasing LLC		Publishing LLC	Consulting LLC	Management LLC					MNREC
Balances															
Deposit and accrued interest	712,608	373	2,729,245	505,688,015	6,175,728	25,541,582	476,703	29,761	139	7,706	7,269	141,874	4,035	680,642	972,327
Loan and advances, accrued interest	7,069,939	–	–	15,451,856	–	35,834,064	–	–	7,248,282	–	–	–	581,388	117,217	2,369,648
Receivables and prepayments	547,500	–	–	1,376,014	–	–	–	–	17,751,627	–	–	–	–	–	–
RMBSS	–	–	–	199,870,221	–	–	–	–	–	–	–	–	–	–	–
Quoted USD bonds	–	–	–	34,429,486	–	–	–	–	–	–	–	–	–	–	–
Accrued interest receivable on swap	–	–	–	2,148,019	–	–	–	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	200,678,622	–	450,982	–	–	–	–	–	–	–	–	–
Letter of credit and Letter of guarantee	–	–	–	–	8,540	3,986,557	–	–	–	–	–	–	–	–	–
Undrawn credit line	–	–	–	–	3,980	1,537	–	–	–	–	–	–	–	433,202	265,858
Derivative financial liability	–	–	–	67,586,124	–	–	–	–	–	–	–	–	–	–	–
Transactions															
Interest income on															
Loans and advances	666,266	–	–	2,060,553	444,128	2,747,999	408,329	–	–	–	–	76,436	–	21,456	221,687
Financial instruments	–	–	–	3,278,645	–	–	–	–	–	–	–	–	–	–	–
RMBSS	–	–	–	14,266,919	–	–	–	–	–	–	–	–	–	–	–
Swap	–	–	–	11,448,055	–	–	–	–	–	–	–	–	–	–	–
Interest expense on															
Deposits	–	–	68,156	85,816,540	50,922	1,666,122	–	–	–	–	–	–	–	922	58,150
Services obtained	100,000	–	–	–	100,000	776,101	2,824,392	246,818	–	–	–	538,548	–	–	–
Commission income	2,522	12	154	2,803,723	–	18,194	2,018	227	28	48	2,019	101	94	4,747	1,290
Remuneration	–	–	–	–	–	–	–	–	–	–	–	–	–	–	14,266,762

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

35. Related party disclosures (contd.)

Terms and conditions of transactions with related parties

The above outstanding balances and transactions arose in the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances except for loans and advances to related parties at the period-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables.

Key management have banking relationships with the Bank which are entered into in the normal course of business.

36. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 33 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

At 31 December 2022	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Assets			
Cash and balances with BoM	1,756,207,294	–	1,756,207,294
Due from other banks and financial institutions	767,067,640	–	767,067,640
Financial assets at fair value through profit or loss	23,785,328	242,231,800	266,017,128
Debt instruments at FVOCI	953,832,580	125,980,182	1,079,812,762
Equity instruments at FVOCI	–	73,528,478	73,528,478
Debt instruments at amortised cost	242,721,212	7,832,004	250,553,216
Investment in associate	–	924,685	924,685
Derivative financial instruments	90,166,256	175,208,175	265,374,431
Loans and advances to customers	2,357,796,491	1,779,385,907	4,137,182,398
Other assets	84,276,486	381,674,074	465,950,560
Investment property	–	79,997,754	79,997,754
Assets held for sale	24,665,717	–	24,665,717
Property and equipment	–	470,625,143	470,625,143
Right-of-use assets	–	15,449,135	15,449,135
Intangible assets	–	1,421,361	1,421,361
Total assets	6,300,519,004	3,354,258,698	9,654,777,702
Liabilities			
Due to banks and other financial institutions	33,120,234	–	33,120,234
Repurchase agreements	273,521,721	43,283,070	316,804,791
Due to customers	5,514,573,270	692,736,135	6,207,309,405
Derivative financial instruments	2,330,277	163,873,260	166,203,537
Borrowed funds	1,129,029,788	289,801,407	1,418,831,195
Other liabilities	101,064,523	159,419,062	260,483,585
Lease liabilities	–	15,869,783	15,869,783
Income tax liabilities	55,742,118	–	55,742,118
Deferred tax liabilities	–	2,401,790	2,401,790
Total liabilities	7,109,381,931	1,367,384,507	8,474,364,648
Net*	(808,862,927)	1,986,874,191	1,180,413,054

36. Maturity analysis of assets and liabilities (contd.)

At 31 December 2021	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Assets			
Cash and balances with BoM	976,352,237	–	976,352,237
Due from other banks and financial institutions	504,417,550	–	504,417,550
Financial assets at fair value through profit or loss	7,631,221	192,239,000	199,870,221
Debt instruments at FVOCI	1,663,846,240	90,588,407	1,754,434,647
Equity instruments at FVOCI	–	57,662,947	57,662,947
Debt instruments at amortised cost	299,482,131	291,197,157	590,679,288
Investment in associate	–	506,297	506,297
Derivative financial instruments	99,678,247	1,969,251	101,647,498
Loans and advances to customers	2,297,395,568	2,291,069,837	4,588,465,405
Other assets	53,580,450	146,471,143	200,051,593
Investment property	–	79,902,629	79,902,629
Assets held for sale	3,605,964	–	3,605,964
Property and equipment	–	480,838,433	480,838,433
Right-of-use assets	–	7,902,693	7,902,693
Intangible assets	–	2,334,413	2,334,413
Total assets	5,905,989,608	3,642,682,207	9,548,671,815
Liabilities			
Due to banks and other financial institutions	13,938,713	–	13,938,713
Repurchase agreements	41,331,885	248,460,643	289,792,528
Due to customers	5,681,330,229	584,980,290	6,266,310,519
Derivative financial instruments	75,951,189	2,084,772	78,035,961
Borrowed funds	495,290,103	913,450,026	1,408,740,129
Debt securities issued	160,140,274	–	160,140,274
Other liabilities	81,615,708	207,454,257	289,069,965
Lease liabilities	–	8,999,663	8,999,663
Income tax liabilities	12,499,999	–	12,499,999
Deferred tax liabilities	–	1,035,344	1,035,344
Total liabilities	6,562,098,100	1,966,464,995	8,528,563,095
Net*	(656,108,492)	1,676,217,212	1,020,108,720

*Certain classification of financial assets and liabilities were based on contractual obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

37. Capital adequacy

The adequacy of the Bank's capital is monitored using the rules and ratios established by BoM.

Capital management

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

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

TRADE AND DEVELOPMENT BANK OF MONGOLIA LLC

Notes to the financial statements - 31 December 2022

37. Capital adequacy (contd.)

Regulatory capital

BoM requires commercial banks to maintain a minimum core capital adequacy ratio of 9% (2021: 9%) and risk weighted capital ratio of at least 12% (2021: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank as at 31 December were as follows:

	2022	2021
Core capital adequacy ratio	15.15%	13.03%
Risk-weighted capital ratio	15.15%	13.03%
	2022	2021
	MNT'000	MNT'000
<u>Tier I Capital</u>		
Share capital	323,810,329	323,809,925
Share premium	664	–
Retained earnings	595,291,291	486,155,463
Adjustment (See Note 33)	–	(4,258,874)
Total Tier I Capital	<u>919,102,284</u>	<u>805,706,514</u>
<u>Tier II capital</u>		
Revaluation surplus	–	–
Total Tier II Capital	<u>–</u>	<u>–</u>
Total capital /capital base	<u>919,102,284</u>	<u>805,706,514</u>

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

%	2022	Weighted	2021	Weighted
	Risk Assets		Risk Assets	
	MNT'000	MNT'000	MNT'000	MNT'000
0	3,312,908,980	–	3,360,928,946	–
20	781,046,774	156,209,355	532,097,176	106,419,435
50	1,420,900,075	710,450,039	1,248,466,378	624,233,189
100	3,627,626,768	3,627,626,768	4,300,089,528	4,300,089,528
150	967,597,227	1,451,395,840	621,453,461	932,180,192
<i>Adjustments:</i>				
Operational risk ratio		78,694,871		86,819,388
Foreign exchange risk ratio		42,571,900		133,595,360
Total	<u>10,110,079,824</u>	<u>6,066,948,773</u>	<u>10,063,035,489</u>	<u>6,183,337,092</u>

38. Events after reporting date

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

On 11 January 2023, the shareholders of the Bank approved to make 1 for 10 share split, as a result, the Bank`s number of ordinary shares in issue had increased to 48,070,880. The share split has been adjusted in the calculation of EPS for all periods presented (See Note 11).

39. Mongolian translation

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