2023
ANNUAL REPORT

TRADE & DEVELOPMENT BANK

GENERAL OVERVIEW

BUSINESS OPERATIONS

INDEPENDENT AUDITOR’S REPORT

GREETINGS FROM THE CEO

Mongolia's earliest commercial bank, Trade Development Bank, was initially established as a fully state-owned company. In this regard, TDB performed the role of the Development Bank of Mongolia, including international investment, financing, and bonds. All businesses and enterprises established during Mongolia's early 1990s market liberalization period became clients of the Trade Development Bank. Together, we believe we have played a pivotal role in shaping Mongolia's current economic growth and development.

Furthermore, TDB has significant contribution to Mongolia's every macro-economic sector, such as foreign trade, industrialization, infrastructure development, energy, mining, railways, highways, power plants, and processing plants. Currently, TDB holds half of the corporate banking market and remain the largest commercial bank in the country.

In 2023, six commercial banks transitioned to public companies, with their shares listed on the stock exchange. Over the past century, Mongolia's systemic banks have achieved significant milestones, fostering a modern, transparent, and sustainable green banking system that adheres to international standards, regulations, and legal frameworks. This system offers a comprehensive array of products and services in the global market. Congratulations to our colleagues in the banking sector and the Bank of Mongolia for effectively navigating these challenges.

Banks and financial institutions are dedicated to advancing environmental, social, and governance (ESG) practices through extensive collaboration. The Trade and Development Bank recognizes the imperative to address challenges posed by climate change, environmental degradation, and social inequality. Consequently, we actively support the transition to a sustainable economy by funding initiatives like energy-efficient technologies, sustainable water and waste management, and eco-friendly infrastructure projects.

Beyond environmental stewardship, our institution prioritizes enhancing social equity and inclusion. Through community engagement and philanthropic endeavors, we empower individuals, promote financial literacy, healthcare, and entrepreneurship. We firmly believe that social advancement and economic prosperity are interconnected.

Achieving sustainable development necessitates cooperation and a shared vision. We extend sincere appreciation to our partners, clients, and shareholders whose invaluable contributions bolster our endeavors.

In addition to protecting the environment, the Bank also takes significant steps to promote social equity and inclusion. Through community engagement and philanthropic initiatives, we empower citizens, promote financial education, health and entrepreneurship. We firmly believe that social progress and economic development go hand in hand.

We cannot achieve sustainable development without cooperation and shared ambition. We would like to express our sincere gratitude to our partners, customers, and shareholders who contribute invaluable to our efforts.

We are hopeful that we can create a better sustainable future together!

Sincere regards,
Chief Executive officer
O.Orkhon

MANAGEMENT TEAM

O.ORKHON
Chief Executive Officer

RAHN WOOD
President

O.BANZRAGCH
First Deputy Chief Executive Officer

A.ENKHMEND
First Deputy Chief Executive Officer

STEPHANE LAMOUREUX
First Deputy Chief Executive Officer

CH.SOLONGO
Deputy Chief Executive Officer

G.GANTSETSEG
Deputy Chief Executive Officer

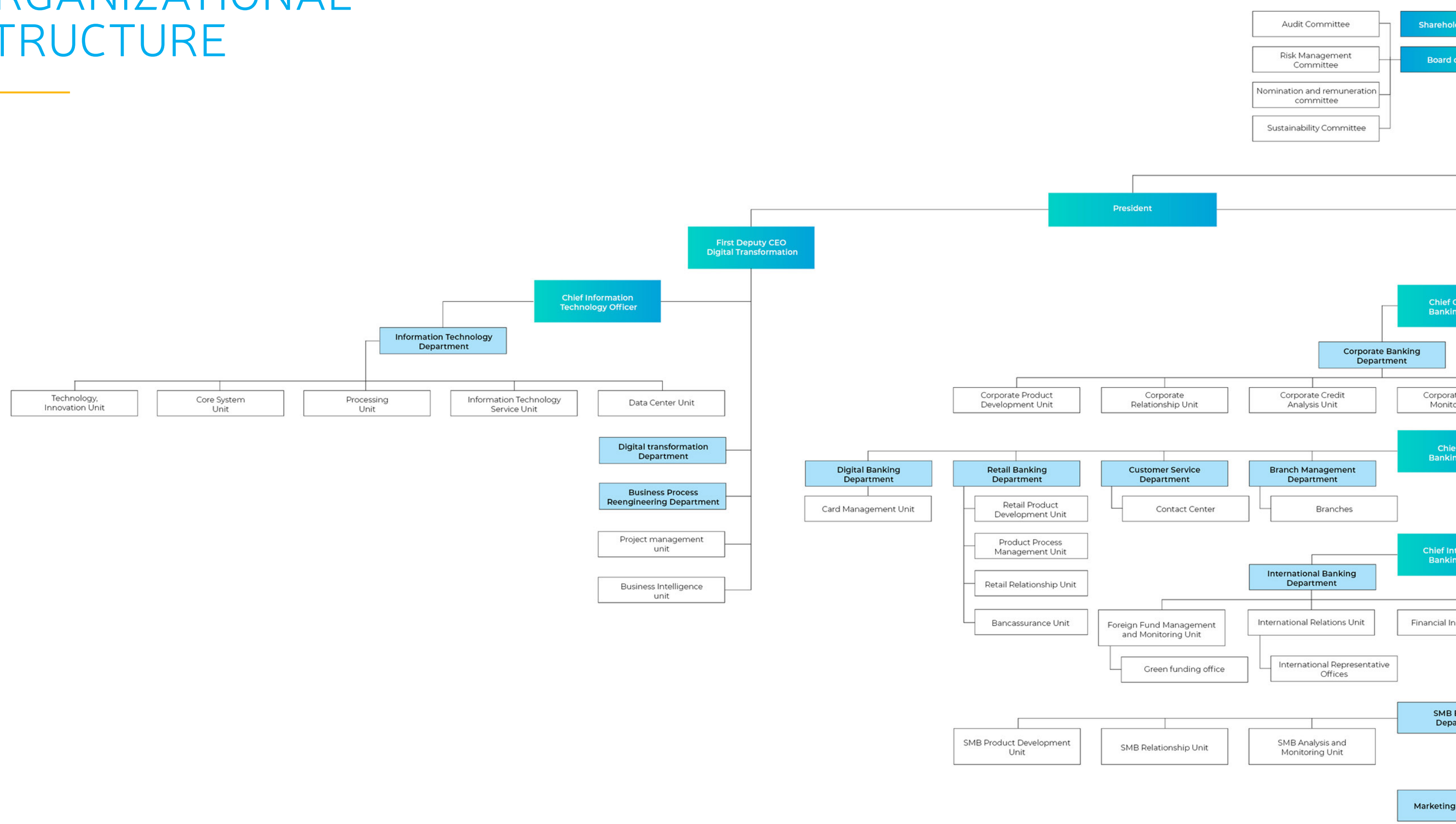
S.BAATAR
Deputy Chief Executive Officer

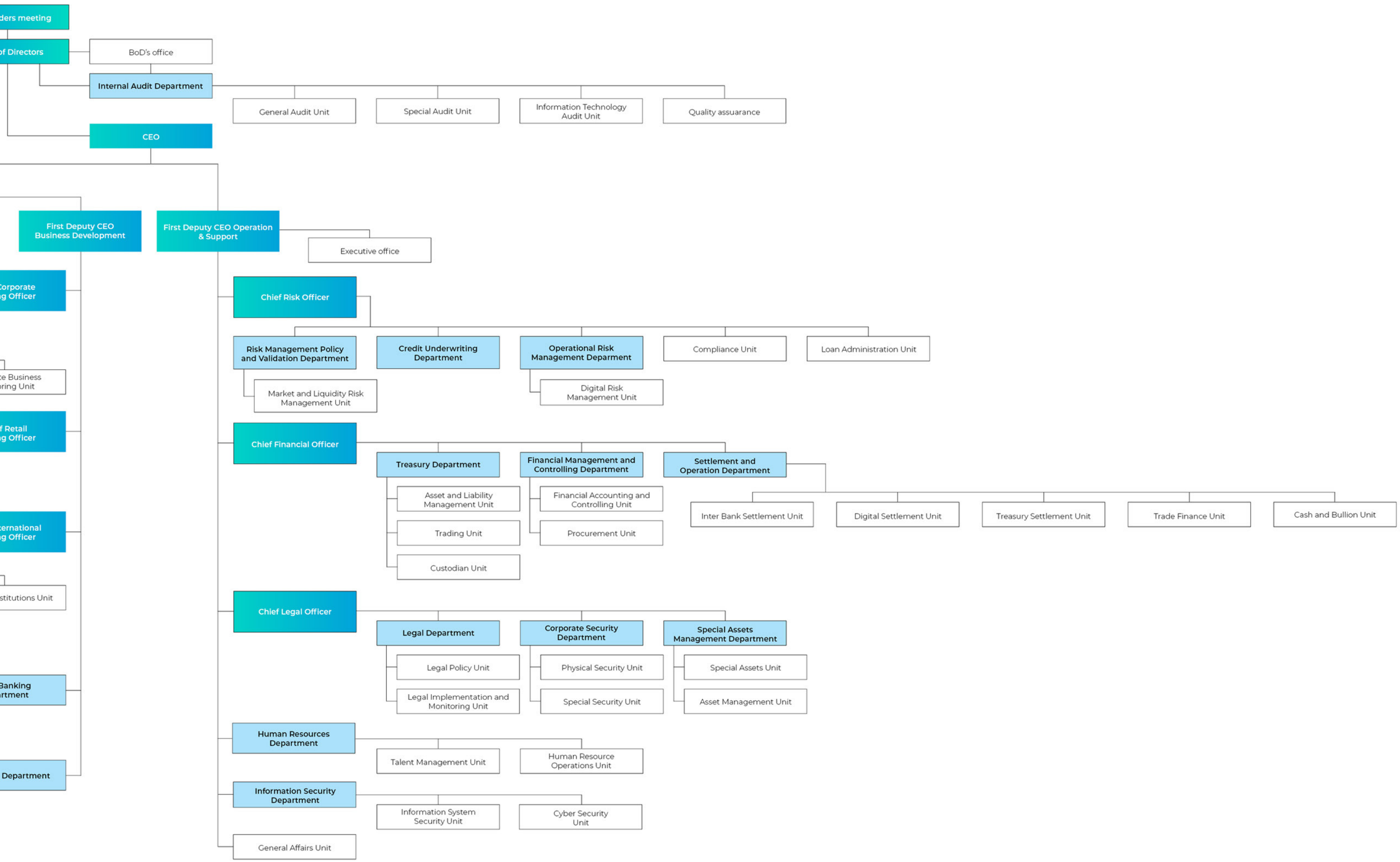
TS.GANBAYAR
Deputy Chief Executive Officer

L.GANTUMUR
Deputy Chief Executive Officer

P.MUNKHNAST
Deputy Chief Executive Officer

ORGANIZATIONAL STRUCTURE





ders meeting
of Directors
BoD's office
Internal Audit Department
General Audit Unit
Special Audit Unit
Information Technology Audit Unit
Quality assuarance
CEO
First Deputy CEO Business Development
First Deputy CEO Operation & Support
Executive office
Corporate g Officer
te Business ring Unit
f Retail g Officer
ernational g Officer
stitutions Unit
Banking rtment
Department
Chief Risk Officer
Risk Management Policy and Validation Department
Credit Underwriting Department
Operational Risk Management Deparment
Compliance Unit
Loan Administration Unit
Market and Liquidity Risk Management Unit
Digital Risk Management Unit
Chief Financial Officer
Treasury Department
Financial Management and Controlling Department
Settlement and Operation Department
Asset and Liability Management Unit
Trading Unit
Custodian Unit
Financial Accounting and Controlling Unit
Procurement Unit
Inter Bank Settlement Unit
Digital Settlement Unit
Treasury Settlement Unit
Trade Finance Unit
Cash and Bullion Unit
Chief Legal Officer
Legal Department
Corporate Security Department
Special Assets Management Department
Legal Policy Unit
Legal Implementation and Monitoring Unit
Physical Security Unit
Special Security Unit
Special Assets Unit
Asset Management Unit
Human Resources Department
Talent Management Unit
Human Resource Operations Unit
Information Security Department
Information System Security Unit
Cyber Security Unit
General Affairs Unit

TOGETHER TOWARDS SUSTAINABILITY

TDB's logo was designed based on a shape of a coin, a monetary unit, symbolizing infinitely flowing wealth towards the money chest from cardinal directions with infinite circulation of money to grow and accumulate wealth and treasure in abundance.

MOTTO

Together towards prosperity

The slogan of the Bank calls upon, unifies and inspires employees, customers and investors to walk towards the development and prosperity together

Together towards sustainability

It is a definition of sustainable development that encourages banks, customers, partners and the country to join forces for a common goal of enabling "development that meets the needs of the present [society] without compromising the ability of future generations to meet their own needs", as defined in the 1987 Brundtland (also known as 'Our Common Future') report of the World Commission on Environment and Development

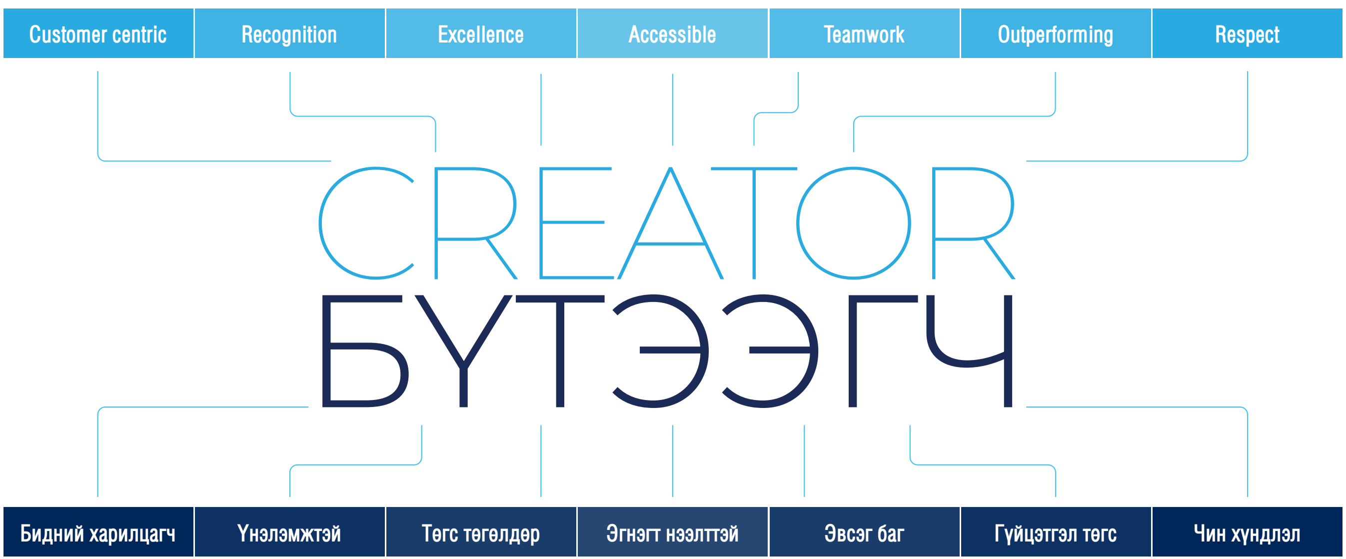
MISSION

We are committed to provide comprehensive financial services that exceed customer expectations, empowered by innovative technology to enable them to realize their ambitions and aspirations.

VISION

To be the leading bank for prosperity in developing Mongolia.

CORE VALUES


Customer centric
Recognition
Excellence
Accessible
Teamwork
Outperforming
Respect
CREATOR
БҮТЭЭГЧ
Бидний харилцагч
Үнэлэмжтэй
Төгс төгөлдөр
Эгнэгт нээлттэй
Эвсэг баг
Гүйцэтгэл төгс
Чин хүндлэл

CORPORATE GOVERNANCE

Excellence in corporate governance serves as a cornerstone of corporate sustainability, and at TDB, we whole heartedly embrace and foster a robust governance framework aligned with best international standards. Our governance structure establishes vital relationships among the members of the Representative Governing Board ("RGB"), the management team, shareholders, and other stakeholders. It also outlines the ethical principles that guide every employee towards achieving our corporate strategies and objectives.

REPRESENTATIVE GOVERNING BOARD

Our RGB upholds the core principles of transparency and integrity across all levels. Through well-defined processes, we ensure transparent and open governance, fostering effective communication in all situations. Additionally, the board plays a pivotal role in providing visionary guidance and strategic direction to effectively lead and support our banking operations.

MANAGEMENT TEAM

Management team at TDB comprises exceptionally skilled banking and finance professionals. With a robust corporate governance structure and a wealth of experience, our management team's success is underpinned by these key factors. These attributes not only facilitate our ability to ensure the long-term profitability of the bank but also enable us to enhance shareholder value.

EMPLOYEES

At the heart of TDB's success lies our dynamic and highly skilled workforce. By enhancing our developmental framework, which includes fair incentives, support, and opportunities for growth, we empower our employees to provide unparalleled services to our valued clients.

US

TDB is strongly devoted to upholding an ethical work environment, unwaveringly adhering to legal and ethical obligations. Integrity is the cornerstone of our approach as we serve our customers, clients, and communities, ensuring the provision of top-notch services and fulfilling our responsibilities to our valued shareholders and clients

PURPOSE OF CORPORATE GOVERNANCE

Our purpose is to enhance corporate governance by aligning it with international best practices and principles, striving to achieve international recognition and a stellar reputation, to raise valuable investments and attract funding.

REPRESENTATIVE GOVERNING BOARD

CHAIRMAN

Randolph KOPPA

MEMBERS

Doljin ERDENEBILEG
Dambiijav KHURELBAATAR
Dagmid YANJMAA
Agvaan ENKHMEND
Demchigjav OTGONBILEG

INDEPENDENT MEMBERS

Jalbaa BOLORMAA
Jamsrandorj DELGERSAIKHAN
Zagdkhuu NARANTUYA

SECRETARY OF THE BOARD

Navaansharav NYAMSUREN

INTERNAL AUDIT AND INTERNAL CONTROL SYSTEM

Internal audit enhances an organization's performance by conducting independent evaluations of the effectiveness of governance, risk management, and monitoring. TDB's internal auditing operations are overseen by the Audit Committee, and the Internal Audit Department, which operates under the supervision of the Representative Governing Board.

Internal Audit Department, operating independently from the Executive Management, is dedicated to providing sound advice and guidance to enhance the bank's operations, offering independent and objective assurance to add value. They adhere to international best practices, such as the International Professional Practice Framework issued by the International Institute of Internal Auditors (IIA).

IN THE REPORTING YEAR, WITHIN THE FRAMEWORK OF INTERNAL AUDIT ACTIVITIES:

- We perform independent and objective assurance services of the Audit at an appropriate level, add value to the bank and contribute to the improvement of the bank's operations.
- Conducted risk-based remote audits of some industry operations and comprehensive audits of specific industry products and services aimed at improving the efficiency of branches and cash offices.
- The documentation and methodology of internal audit activities were improved in accordance with international standards of internal audit.

INTERNAL CONTROL SYSTEM

Internal control plays a vital role in Bank's day-to-day operations, serving as a risk mitigation system across all levels of business and operations. Participation in the evaluation of the effectiveness and efficiency of internal control is not only limited to Audit Committee and the Internal Audit Department but also involves the active engagement of the senior management,mid-level management, employees, and stakeholders. TDB is committed to continuously enhancing its internal control system. Notably, all units of the bank adhere to the "Internal Control Matrix" approved by the CEO. This matrix encompasses provisions related to internal audit in guidelines and regulations, establishes controlling and monitoring functions in employee job descriptions, and assigns special roles or vacancies with monitoring responsibilities and a reporting system.

MONGOLIAN ECONOMIC OVERVIEW

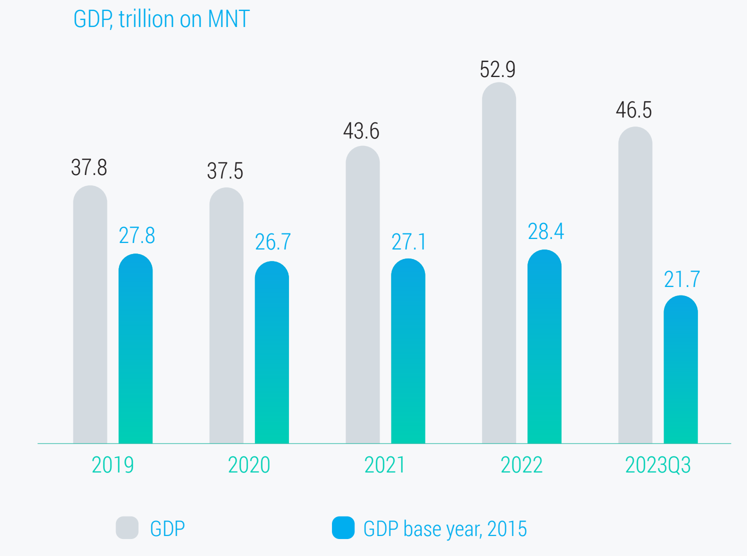
THE YEAR 2023 EXPERIENCED A DECLINE IN EXTERNAL PRICE PRESSURES AND AN INCREASE IN EXPORT REVENUE

In the first 9 months of 2023, the Gross Domestic Product (GDP) at current prices reached MNT 46.5 trillion, showing an increase of 6.9%. When assessing GDP at constant prices in 2015, it reached 21.7 trillion.

The overall growth of GDP was derived from diverse sectors, with the mining and extractive industry sector contributing 3.4%, the service sector adding 4.1%, the increase in net tax on products accounting for 0.6%, the agriculture sector contributing 1.6% and the industry and construction sector attributing 0.4%.

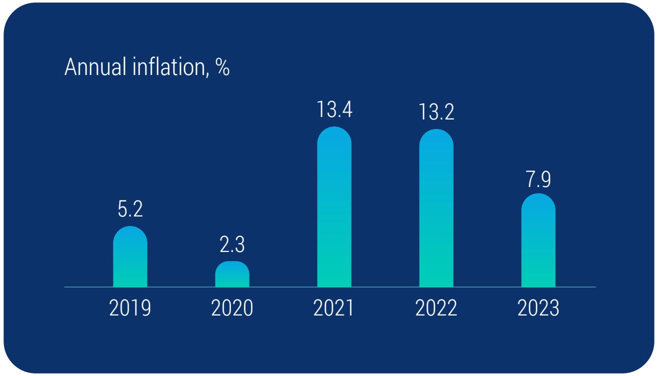
However, agricultural sector showed decline of 320.1 billion MNT, witnessing a decrease of 9.5% which had a negative impact on GDP change by 1.6%. Increased expenses in mining and quarrying sector reached 2.7 trillion, an increase of 683.1 billion (33.2%) from the same period of the previous year.

This growth was primarily driven by increase in coal and oil production. Price pressure caused by external factors such as transportation costs, foreign prices, and exchange rates is steadily decreasing. Inflation is declining due to the results of policy measures that are aimed at stabilizing inflation at the target level. However, the outlook for inflation will largely depend on factors such as fiscal spending, including the impact of salary and pension increases, weather conditions, and the supply of fuel and gasoline.



THE OPPORTUNITY TO BECOME A BIG PLAYER IN THE GLOBAL COPPER MARKET HAS STARTED

Official mining operations at the underground mine, which accounts for 80% of the copper reserves of the Oyu Tolgoi deposit, commenced on March 13, 2023. Between 2028 and 2036, it is estimated that an average of 500,000 tons of copper will be extracted from the open and underground mines of Oyu tolgoi, which is enough to produce six million electric cars. Mongolia embarked on its long-term journey to become the world's fourth-largest underground copper mine. Moreover, "Erdenes Oyu Tolgoi" company emphasized that it would start receiving dividends from the Oyu Tolgoi project starting from 2032.



COAL EXPORTS HAVE REACHED AN ALL-TIME HIGH IN OUR COUNTRY'S HISTORY, POSITIVELY IMPACTING THE BALANCE OF PAYMENTS

After the Covid-19 pandemic, the national budget balance, which had been in deficit for three years in a row, turned into a surplus of MNT 763.4 billion in 2023. The total revenue of the unified state budget reached 23.2 trillion MNT in 2023, an increase of 35.6% from the previous year. Despite a 23.7% increase in expenditures and net loans to MNT 22.5 trillion, the budget balance remained profitable. The increase in total income was mainly due to the 51.6% increase in income tax, 29.8% increase in social security income,21% increase in VAT, and 2-fold increase in mineral resource royalties. In 2023, Mongolia exported a record 70 million tons of coal, which was a 2.1 times increase from 2022.

- ### Inflation gradually weakened:

  Inflation, which was 13.2% at the end of 2022, reached 7.9% at the end of 2023 and is slowly approaching the target level of the Central bank.

- ### The growth rate of loans granted to citizens intensified after the end of 2022:

  The balance of loans granted to citizens amounted to 15.6 trillion MNT, an increase of 32.4% from the previous year. In this, the growth of loans secured by deposits and pension loans are the main weights. Along with this, the Bank of Mongolia clarified that the imports of durable goods such as electrical goods, household appliances, and automobiles tend to increase in the import structure.

BANKING SECTOR

Given that the banking sector dominates our economy's market structure, its health and stability serve as crucial indicators of the overall financial system. In the reporting year, the banking sector's total assets witnessed an increase of 24.2 percent, reaching MNT 57.0 trillion. Notably, the majority of the banking sector's total assets were attributed to corporate and retail loan portfolios of banks.

LOANS

As of 2023, the total loan portfolio of banks accounted for 48% of the banking sector's total assets, reaching MNT 27.4 trillion. This marked a 23.6% increase of MNT 5.2 trillion compared to the previous year. Total loan portfolio showed a slight slowdown of 17.3% points; however, retail loan portfolio had a positive impact compared to 2022.

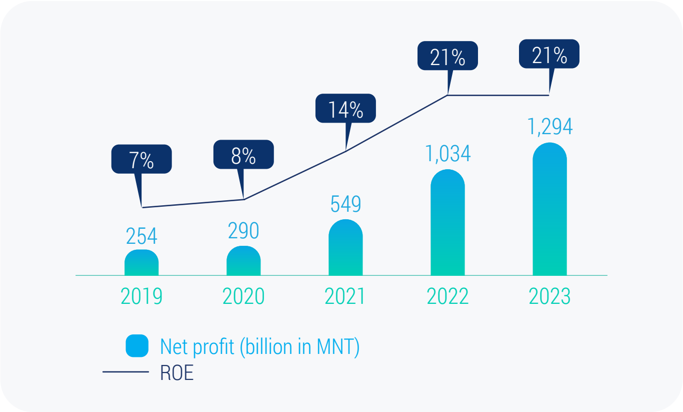
At the end of the reporting year, 7.0% of the total loan portfolio of the banking system were non- performing loans. Notably, certain economic sectors, such as mining (24.7%), manufacturing (16.9%), and construction (19.7%), exhibited higher non-performing loan ratios compared to the average of the banking sector. On the other hand, the real estate (3.2%) and trading (5.2%) sector loan portfolios displayed significantly lower non- performing loan ratios than the average.

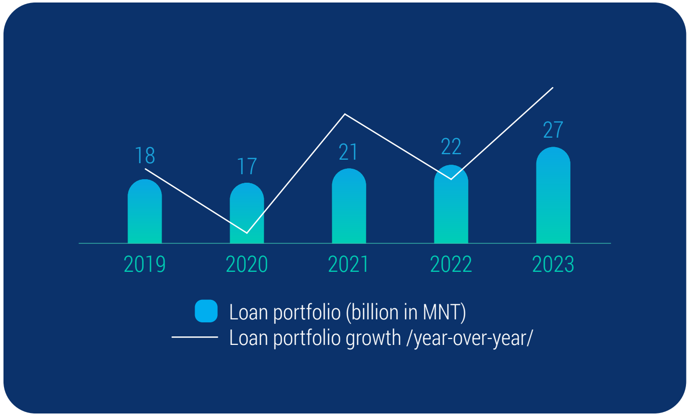
CUSTOMER DEPOSITS

In the reporting year, customer deposits held by banks constituted 69% of the total liabilities of the banking sector, amounting to MNT 34.9 trillion. This marked a 26.3% increase compared to the previous year.
However, it has increased by 18.7% points compared to the previous year. One of the main, savings increased by 26.6% from the previous year and reached 21.1 trillion MNT. Specifically, deposits increased by 26.6% from the previous year and reached 21.1 trillion MNT. This growth was influenced by the increase in MNT savings of citizens. However, the exchange increased by 25.8% or 2.8 trillion MNT from the previous year and reached 13.7 trillion MNT, which can be explained by the increase in MNT exchange of organizations.

PROFITABILITY

In 2023, the banking sector reached a profit of MNT 1,294 billion, marking an impressive growth of 21% compared to the previous year. This remarkable improvement in profitability can be attributed to the recovery of the economy as the adverse effects of the pandemic subsided. As a result, the banking sector's risk-bearing capacity has also strengthened, owing to the increased profitability and capitalization of banks.





HIGHLIGHTS

IPO

AS ONE OF THE LARGEST CORPORATE BANK IN MONGOLIA, TDB ANNOUNCED ITS IPO AND OFFICIALLY BECAME A PUBLIC COMPANY.

中国银行 BANK OF CHINA

Signed memorandum of strategic cooperation with the "Bank of China".

MONGOLIA - JAPAN business forum was organized to improve the business environment and cooperation between Mongolia and Japan.

TRADE FINANCE FORUM 2023 by TDB

TDB organized first ever "Trade Finance Forum" in Mongolia.

WORLD ECONOMIC FORUM

For the first time from Mongolia, TDB became an official partner of «World Economic Forum».

25%

By the decision of the Representative Governing Board of TDB, the productivity salary of employees, excluding the executive management, has been raised by as much as 25 percent.

CERTIFIED ISO 23592:2021 COMPANY

CERTIFIED ISO 9001:2015 COMPANY

TDB became the first bank in Mongolia to introduce service excellence ISO: 23592 and quality management system ISO: 9001:2015 standards.

In collaboration with Golomt Bank and State Bank, we have enhanced product and service availability by enabling cash transactions with bank cards at shared ATMs, featuring reduced fees.

ADB

TDB participated in 56th Annual meeting of Asian Development bank in Songdo, Republic of Korea

WeChat Pay

In cooperation with Sky Hypermarket LLC, the service of accepting payments through WeChat Pay has been introduced at the E-mart chain store.

2023 ОНЫ ОНЦЛОХ ҮЙЛ ЯВДАЛ

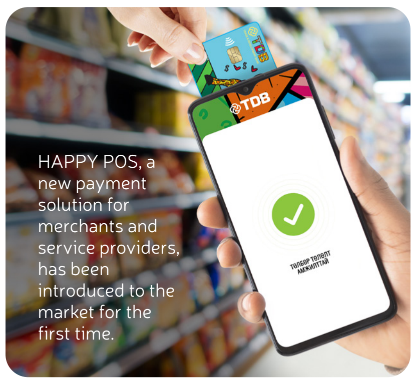
Introduced new "Green business loan with credit guarantee" product to the market.

NEXT SOLUTIONS

NEXT SOLUTIONS NETWORKING EVENT WAS ORGANIZED TO SUPPORT SMB OWNERS.

ToC
МОНГОЛЫН ТОГТВОРТОЙ САНХҮҮГИЙН ХОЛБОО

TDB was awarded as the "Outstanding ToC Bank" of Sustainable Finance Association.



TDB was awarded as the "Outstanding ToC Bank" of Sustainable Finance Association.

TDB received the «GENESYS CX 2023» award from Genesys, a major US technology company. This is the first time a Mongolian company has received an award from a US software company.

MITSUI & CO.

Mitsui & Co., Ltd. Funding to support Copper Export was successfully provided in cooperation with the company.

Launched mortgage loans with credit guarantee in rural areas.

GIP

The Green Investment Principles (GIP) for the Belt and Road took place successfully in Beijing. One notable highlight was the recognition of Trade and Development Bank JSC with the «Outstanding Service Award for 2023.»

Successful introduction of its Einstein card, with integration of e-commerce platforms to the Cashback program resulted in expansion of youth bank customers.

OPENED A NOSTRO ACCOUNT WITH BANK OF NEW YORK MELLON, THE TOP US CLEARING BANK. TDB BECAME THE FIRST BANK TO JOIN THE GLOBAL US DOLLAR PAYMENT SYSTEM AFTER MONGOLIA'S ENTERING OF THE GRAY LIST OF FATF.

In recognition of the success of reconnecting Mongolia to the global US dollar payment system, TDB was awarded the title of «Best Bank for Remittances Mongolia - 2023» by «World Economic Magazine» magazine.

HAPPY PAY

Introduced the «Happy Pay program» exclusively for Britto cardholders, benefiting 2153 customers with rewards.

The «Mongolians with Savings» campaign achieved success for the fourth consecutive year, rewarding 250 customers with cash incentives. Additionally, 10 customers enjoyed overseas travel as couples, and one customer was gifted a townhouse.

Digitized its loan services for retail and SMB clients.

TDB opened a new paperless, digital branch.

FINANCIAL SUMMARY

BALANCE SHEET

MNT in billion

Assets	2021	2022	2023
Cash and balances with Bank of Mongolia	976.4	1,756.2	2,308.7
Due from other banks and financial institutions	504.4	767.1	1,651.8
Financial investment	2,602.6	1,669.9	1,917.9
Investment in associates	0.5	0.9	5.2
Derivative financial instruments	101.6	265.4	172.2
Loans and advances to customers	4,588.5	4,137.2	4,933.5
Other assets	200.1	466.0	509.2
Investment property	79.9	80.0	53.3
Assets held for sale	3.6	24.7	8.3
Property and equipment	480.8	470.6	568.0
Right-of-use assets	7.9	15.4	13.2
Intangible assets	2.3	1.4	25.3
TOTAL ASSETS	9,548.7	9,654.8	12,166.6

Liabilities	2021	2022	2023
Due to other banks and financial institutions	13.9	33.1	318.4
Repurchase agreements	289.8	316.8	51.3
Due to customers	6,266.3	6,207.3	9,086.8
Derivative financial instruments	78.0	166.2	159.1
Loan from a financial institution	1,408.7	1,418.8	872.7
Debt securities issued	-	-	-
Other liabilities	160.1	-	-
Lease liabilities	289.1	260.5	172.7
Income tax liabilities	9.0	15.9	13.9
Income tax liabilities	12.5	55.7	76.9
Deferred tax liabilities	1.0	2.5	6.4
TOTAL LIABILITIES	8,528.6	8,476.8	10,758.2

EQUITY	2021	2022	2023
Share capital	323.8	323.8	340.9
Share premium	-	-	64.1
Revaluation reserves	151.2	145.7	143.5
AFS reserve	4.4	3.0	35.4
Other reserves	54.6	110.2	134.8
Retained earnings	486.2	595.3	689.8
TOTAL EQUITY	1,020.1	1,178.0	1,408.4
TOTAL LIABILITIES AND EQUITY	9,548.7	9,654.8	12,166.6

STATEMENT OF INCOME

	2021	2022	2023
Interest income	597.1	674.1	764.7
Interest expense	(405.6)	(354.5)	(469.0)
Net interest income	191.5	319.6	295.7
Net fee and commission income	44.4	50.4	61.4
Other operating income/(expense), Net	(13.4)	13.9	54.7
Non-interest income	31.0	64.4	116.1
Total operating income	222.5	384.0	411.7
Operating expense	(130.9)	(172.8)	(183.8)
Credit loss reversal	57.7	28.3	(35.4)
Share of profit/(loss) of an associate	(28.7)	0.4	4.3
Profit before tax	120.5	239.9	196.8
Income tax expense	(15.7)	(45.7)	(45.6)
Profit for the year	104.8	194.2	151.2

FINANCIAL RATIOS

Profitability	2021	2022	2023
Cost to income ratio	58.8%	45.0%	44.6%
Net interest margin	2.9%	4.4%	3.7%
Return on equity	10.3%	16.5%	10.7%
Return on assets	1.1%	2.0%	1.2%
Growth ratios	**2021**	**2022**	**2023**
Asset growth	17.6%	1.1%	26.0%
Loan portfolio growth	11.7%	-9.8%	19.2%
Total deposits growth	18.0%	-0.9%	46.4%
Equity growth	0.3%	15.5%	19.6%
Asset quality	**2021**	**2022**	**2023**
Loan to deposit ratio	73.2%	66.7%	54.3%
Loan to asset ratio	48.1%	42.9%	40.5%
Liquidity ratio	40.6%	43.4%	49.7%
Capital adequacy	**2022**	**2023**	**2023**
Tier 1 capital adequacy ratio	13.0%	15.2%	16.6%
Capital adequacy ratio	13.0%	15.2%	16.6%

HUMAN RESOURCE MANAGEMENT

Trade and Development Bank implements people-centered human resource management and implements necessary projects and programs focusing mainly on the well-being of its employees, competitive salary packages, and continuous training and development.

CONTINUOUS LEARNER

In 2023, a total of 256 different types of training programs were conducted 579 times for 21,439 employees with reoccurring attendance. During the reporting period, 1 employee attended an average of 9.3 training sessions. Also, 82% of all employees participated in new training programs, associated with the bank's long term strategies.

21439 employees | **256** type | **579** training sessions

82% of all employees attended the training.

TDB partnered with Udemy and Melearn, leading internationaland Mongolian training platforms, to offer its employees with variety of training channels.

Moreover, with the help of domestic software, we created library for its online trainings and delivered comprehensive information to our employees, providing them with opportunities for continuous learning and development.

- TDB introduced the "Support Program - 2023" aimed at employees who took part in international qualification training and exams, offering a bonus reimbursement of $1,000.
- "Management training program, "Relationship manager training program" and "Senior employee training program" were successfully organized and concluded with an average rating of 96%.
- Provided 17 online courses from prestigious foreign universities to equip and prepare highly qualified employees.

COMPENSATION AND BENEFITS

- In 2023, TDB launched the "Beehive" program, which will continuously increase the salaries of all employees for four years. Within the framework of the program, by the decision of the Representative Governing Board, the productivity wages of all employees have been increased by up to 25 percent.
- Introduced a KPI-based bonus structure aimed at fostering a stable workplace and enhancing employee retention. This initiative has yielded positive outcomes, including heightened employee satisfaction and productivity levels.
- During the reporting period, TDB extended a loan of MNT 9 billion to its employees to address their social needs.
- 120+ best employees were awarded for an overseas trip to Thailand, Vietnam, Jeju and Hainan.
- 200+ employees were commended for their exceptional contributions from the Bank of Mongolia and other affiliated organizations.

EMPLOYEE WELL-BEING:

- "Flexible Working Hours" initiative has been introduced to enable all employees to perform effectively and consistently in their workplaces.
- Back office employees have now adopted the business casual dress code.
- Established a Well being club to support the mental and physical health of employees.
- More than 200 employees are involved in the activities of the bank's social clubs.
- In cooperation with more than 100 companies, we implemented the "TDB Employee Benefit Book" and supported the financial well-being of employees.

FLEXIBLE WORKING HOURS

BUSINESS CASUAL DRESS

Well-being club

TDB EMPLOYEE BENEFIT BOOK

ХУВЬ ХҮНИЙ
ХӨГЖЛИЙН КЛУБ

HAPPY STAFF, HAPPY CUSTOMER:

- The satisfaction survey of more than 1,000 employees working in branches and cash offices averaged 85%.
- The average survey percentage of new employee, participating in the Orientation Program, was 98%.
- TDB has 8 types social clubs for all employees:
  - Personal Development club
  - Good readers club
  - English speaking club
  - Sport club
  - E-Sport club
  - Gender networking club
  - Hiking club
  - Digital transformation club
- During the reporting period, we organized series of impactful events and activities aimed at empowering our employees and nurturing a positive corporate culture:

  "TDB Quiz Night", "TDB Open Mic", "TDB 33 Quiz", and "Thank You Campaign" were organized with the involvement of more than 1,200 employees.

CORPORATE SOCIAL RESPONSIBILITY

SAVE THE PLANET

TDB Worked with "Save The Planet" campaign, which encourages the new generation to cherish and protect the planet through music. We broad-casted a variety of social content to raise awareness about plastic waste and the proper disposal of harmful components in bank cards.

DOCTORS AND MEDICAL EMPLOYEES

Doctors and medical personnel, entrusted with the noble task of promoting and safeguarding the health of Mongolia's population, were prioritized as recipients of the mortgage loan.

HISTORY OF MONGOLIA

As a national bank honoring its heritage, we supported content focused on the "History of Mongolia", actively contributing to the preservation and transmission of our cultural heritage to younger generations.

BOUNDLESS DREAM 2023

In 2018, TDB launched the "Boundless Dream" project aimed at fostering an optimal learning environment for children. Over the reporting period, we achieved notable progress by renovating 55 school libraries, benefiting 200,000 children and youth through this initiative.

BNY MELLON

TDB has opened a nostro account with Bank of New York Mellon, the top US clearing bank. As a result, Mongolia was able to join the global US dollar payment system after entering the gray list of FATF.

ToC

The Office of the President of Mongolia, Mongolian Sustainable Finance Association, IFS, IFC and other foreign and domestic supporting organizations have organized the Green Finance International Leadership Program 2023. During this occasion, Mongolia became one of the first countries in the world to adopt the SDG taxonomy.

BUSINESS ENVIRONMENT

During the reporting period, TDB sponsored AustCham Mongolia's "MYTHS & LEGENDS" gala event, "TDB and JICA business matching event", "NEXT SOLUTIONS networking event", "TRADE FINANCE FORUM-2023", "JAPANESE - MONGOLIAN business networking event", "INVEST KHOVD 2023", and supported "Bloomberg TV Mongolia awards 2023".

Thus, TDB has played an important role in improving business environment and enhancing economic and social importance between Mongolia and third neighboring countries.

TRADE FINANCE FORUM

Trade finance forum was organized for the first time in Mongolia. We illuminated the dynamic trade and service business landscape, engaging in discussions about challenges, accomplishments, and emerging opportunities with our valued customers and trusted business partners.

Under the theme "Welcome to Mongolia," TDB sponsored the "Mongolian Economic Forum-2023" event. At the forum, we pledged to enhance sustainable financing efforts and maximize the utilization of our IPO funds for green and sustainable projects and initiatives.

HIGHEST SALARY IN THE INDUSTRY

To improve employee well-being and quality of life, TDB increased its productivity wages by up to 25 percent.

MONGOLIAN OPEN INNOVATION CO-CREATION FOR SDG'S

In cooperation with JICA, TDB launched a program for initiatives and solutions to existing social problems faced by Mongolia. The winning proposal will be sponsored and supported in near future.

World Space Week

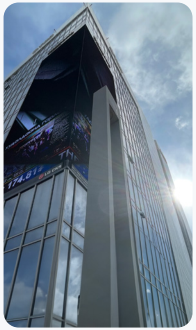
Монгол Улсын хүүхэд залууст зориулсан шинжлэх ухааны цорын ганц эвент арга хэмжээ болох WORLD SPACE WEEK -г ивээн тэтгэж, 30 мянга гаруй хүүхдийг шинжлэх ухаанд дуртай болгохын төлөө ажиллаа.

GREEN LOAN WITH CREDIT GUARANTEE

In partnership with Credit Guarantee Fund, TDB launched first of its kind of Green business loan with credit guarantee. In addition, the bank is offering concessional mortgage loans with credit guarantee in rural areas of Mongolia.

HAPPY ART

Artistic paintings depicting happiness have adorned the walls of a prominent building in the bustling area of Ulaanbaatar. This initiative evolved into a social project, positively influencing the community by uplifting citizens' spirits and fostering a dynamic atmosphere.



Bloomberg

LED MEDIA SCREEN

TDB backed initiatives aimed at societal and environmental welfare undertaken by both governmental and private sector entities. As part of this support, 8 types of videos from 4 organizations were made available for free display for over 14 days each on screens outside TDB's headquarters.

CORPORATE BANKING BUSINESS

TDB is renowned for its exceptional performance and has been awarded the title of Best corporate bank in Mongolia. Furthermore, we have a long-term strategic aspiration to transform into a "customer-centric bank". We place significant emphasis on providing products and services that meet customer demands and expectations, utilizing optimal sales channels, and ensuring top-notch customer care.

In the year 2023, we established partnerships with over 2,700 prominent enterprises and conglomerates, industry leaders in sectors including mining, trade and services, agriculture, manufacturing, and construction, thereby serving as a catalyst for economic growth.

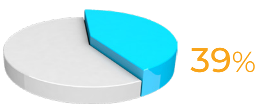
TDB provides over 60 products and services that meet the business needs of client organizations, including loans/deposits/trade financing and payment services.

We provide support to each of our customers' businesses and strive to grow together for mutual benefit.

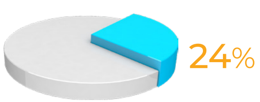
LOAN

The corporate segment's loan portfolio constituted 39% of the total banking system, with deposit balances in the corporate segment averaged around 24% of the overall banking system.

TOTAL MARKET



TOTAL CURRENT ACCOUNT AND DEPOSIT



TRADE FINANCING

As trade volumes continue to expand, traders leverage import and export letters of credit along with collection services to improve co-operation and mitigate risks. The total number of letters of credit and guarantees given to corporate segment customers rose by 24.6% in 2023 compared to the previous year.

TDB is committed to increasing customer awareness of its products and positioning itself as a trustworthy player in the global market. Furthermore, a new product aimed at financing transportation, logistics, and customs costs has been introduced in the market, with current funding totaling MNT 1.6 billion.

During the reporting period, the Trade Finance Forum was successfully organized for our customers in the trade sector, and the 3F (Freight forwarding, Factoring, Forfaiting) products of trade finance were introduced to the market.

GREEN FINANCING PROGRAM

TDB has embarked on a pioneering endeavor in Mongolia, introducing the "Environmental and Social Risk Management System." The progressive strategy is geared towards fostering lasting sustainable development by supporting environmentally and socially conscious businesses. By introducing new products and services, TDB is spearheading the transformation of the banking sector.

Aligned with the strategic objective of becoming an international bank, TDB has set targeted goals: the integration of Sustainable Development Goals and the establishment of a "Green Bank" identity.

CLIMATE 30+

TOGETHER TOWARD SUSTAINABILITY

THE BANK HAS LAUNCHED THE «CLIMATE 30+ GREEN RECOVERY PROGRAM,» A FORWARD- THINKING INITIATIVE DESIGNED TO EFFECTIVELY ACHIEVE THESE AMBITIOUS GOALS. A TOTAL FINANCING AMOUNT OF MNT 30.2 BILLION HAS BEEN ALLOCATED ACROSS VARIOUS GREEN CATEGORIES.

- Energy efficiency
- Sustainable water and waste use
- Low pollution energy
- Sustainable agriculture land use, forestry and eco-tourism
- Renewable energy
- Pollution prevention and control

12.3 BILLION

During the reporting period, we collaborated with the Loan Guarantee Fund to launch innovative low-interest, long-term green business loan offerings in the market, while also evaluating green loan applications totaling MNT 12.3 billion.

PROJECTS

TDB is dedicated to supporting its clients by participating in government initiatives and programs funded by The Bank of Mongolia and The Asian Development Bank. These actions are in line with the goals of encouraging entrepreneurship, boosting the economy, and creating employment opportunities.

By actively endorsing these initiatives, a staggering sum of 203.1 billion MNT loans were successfully settled in 2023. Through this approach, we allocated funds towards various ventures including agriculture, intensive animal husbandry, warehousing, nutritious products for children, bakery, flour mill, and more, while also facilitating working capital financing:

TDB has extended a total funding of MNT **198.6** billion to our clients engaged in fuel importation. This effort is aimed at establishing fuel reserves within Mongolia, maintaining a steady fuel supply, and preventing any interruptions in fulfilling confirmed orders.

Additionally, we are actively engaging to conclude a loan facility agreement to support the tourism sector in Mongolia.

- A total of MNT167.8 billion for working capital and investment to aid food and agricultural production.
- Financing of MNT 3.0 billion for the Agricultural and Rural Development Project, utilizing funding from the Asian Development Bank.
- A loan of MNT 20.0 billion for meat processing and for meat reserves, planned for 2024.
- A support program for domestic airlines, with a funding of MNT 2.9 billion.
- A cashmere preparation program, allocated loan of MNT 9.4 billion.

МОНГОЛБАНК
МОНГОЛ УЛСЫН ТӨВ БАНК

МОНГОЛ УЛСЫН ЗАСГИЙН ГАЗАР
ХҮНС, ХӨДӨӨ АЖ АХУЙ, ХӨНГӨН ҮЙЛДВЭРИЙН ЯАМ

ADB

NEW PRODUCT AND SERVICE

To assist our corporate clients and enhance collaboration in various areas, we have introduced 5 new products in the market.

CREDIT GUARANTEE FUND - GREEN BUSINESS LOANS

In cooperation with the Credit Guarantee Fund, a new low-interest, long-term business green loan product has been introduced for SMB entrepreneurs.

CASHABLE TERM DEPOSIT

Expenses may be incurred throughout the contract period, and to meet customer's financial needs, a new term deposit product with flexible terms has been introduced.

THE FACTORING SERVICE

Based on the demand and needs of clients, the factoring service for financing short-term working capital by pledging inter-organizational receivables without requiring real estate has been introduced to the market for the first time.

TRANSPORTATION FINANCING RIGHTS

Enterprises and organizations involved in importing have been provided with an opportunity to maintain their operations smoothly and guarantee the on-time arrival of the required inventory. To simplify the process of shipping and handling customs payments for the recently introduced product, an innovative financial solution has been implemented.

CREDIT GUARANTEE FUND - LOAN FOR SUPPORTING EXPORTERS

A new long-term current capital loan with low interest rates has been introduced in collaboration with the Credit Guarantee Fund, offering preferential terms tailored to the needs of exporting companies.

SMALL AND MEDIUM-SIZED BUSINESS BANKING

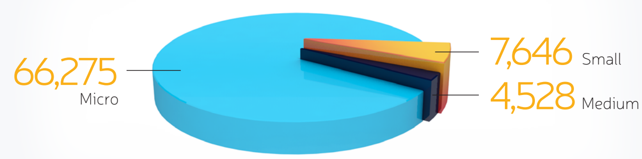
In line with our customer-centric banking approach, TDB offers a broad range of collaborative opportunities for small and medium-sized enterprises (SMEs) to support and enhance their operations. Our objective is to integrate both conventional and innovative financial solutions, enhance liquidity for SMEs, introduce supply-chain financing alternatives, support socially and environmentally responsible initiatives, and expand our market presence.

The small and medium-sized business segment encompasses both SME individuals and corporate customers. Within this segment, we currently have 78,449 active small and medium business customers. Our aim is to provide our customers with banking products and services that meet international standards via our branches, cash offices and online channels.

In the past year, the loan balance of our SME customers reached MNT 785.86 billion, representing 15.5% of our overall loan portfolio. Additionally, customer deposits amounted to MNT 1,105.40 billion, accounting for 12.4% of the total bank deposits.

In the reporting year, 34% of small and medium segment are engaged in the trade sector, while construction sector comprised 13% of these organizations, the service sector

SME CUSTOMER



Loan portfolio balance
785.86 MNT billion

SME deposits
1,105.40 MNT billion

NEW PRODUCTS AND SERVICES

EMPLOYMENT SUPPORT LOAN

The Employment Support Fund has launched small loan products in the market to offer reduced-rate financing for self-employed individuals, citizens establishing cooperatives, micro-industry owners, service providers, and individuals seeking employment and residency in their nation.

AGREEMENT SECURED LOAN

To support entrepreneurs lacking collateral in financing their short-term working capital, a new loan product has been launched to allow repayments using future income and securing a contract for the supply of goods between government entities, private businesses, and individuals.

CHAIN STORE RECEIVABLES SECURED LOAN

Credit options have been introduced in the market to help suppliers who provide goods to chain stores, to finance their short-term working capital by using their receivables as security, thus improving their inventory turnover without the need to wait for any payment.

SERVICES

HAPPY POS is a cutting-edge payment solution designed for businesses in the trade and services industry. It enables card payments via NFC on Android mobile phones, utilizing the most up-to-date technology available. This innovative product allows both individuals and companies looking to become merchants to easily download and install it on their smart devices at no cost, regardless of their business sector.

CREDIT GURANTEE GREEN BUSINESS LOAN WITH ADB FINANCING

To support green business and to assist small and medium-sized businesses that may lack collateral, this new product has been introduced to enable these businesses to grow their operations and undertake new green and sustainable projects and programs.

RETAIL BANKING

During the fiscal year, TDB expanded its presence on the retail market, focused on introducing innovative products and services, and modernized traditional offerings. Consequently, our market share in the term deposit sector rose to 20.9%. Moving forward, we are committed to enhancing customer experience through the integration of technology and innovation across our entire range of products and services.

931'000 customer

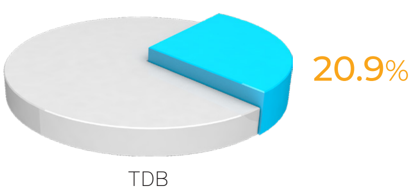
A key objective for the bank in the medium term is to reach two million customers, and in the reporting period, we made significant progress towards this target, with our customer base growing to 931,000.

DEPOSITS

We provide our customers with wider range of deposit products compared to other commercial banks. In 2023, we have introduced the most competitive deposit interest rate for our customers.

The " Mongolians with Savings" campaign has been effectively executed for the fourth consecutive year, with the goal of promoting savings among all citizens of Mongolia, educating them on the advantages of saving, and motivating them to save. Consequently, we have achieved a growth of 13% in 2023.

FOR TERM DEPOSIT MARKET SHARE



LOANS

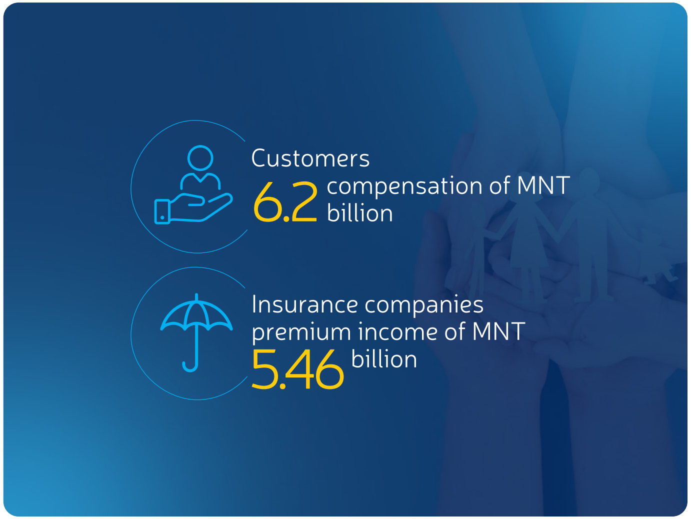
We are launching a range of products and services in the market that cater to various financial needs and preferences of our customers. Our customers face numerous financial challenges, influenced by factors like inflation in Mongolia, rising product prices, and the purchasing power of individuals. To address this issue,

we have introduced several new services in the market that aim to fulfill these needs without imposing any financial burden or debt. Our primary objective is to ensure the utmost customer satisfaction. As a part of this endeavor, we are striving to offer loans at the most competitive interest rates compared to other systemic banks in Mongolia.

INSURANCE

Within our insurance brokerage services, we prioritize in protecting our clients' interests and in providing insurance coverage that precisely matches contractual terms. Last year, we distributed a total of

MNT 5.88 billion in reimbursements to our customers. Our main goal is to maintain fairness among all parties involved. Additionally, we generated a total premium income of MNT 5.46 billion for our partner insurance companies, solidifying our leading position in the banking insurance brokerage sector.



HIGHLIGHTS IN THE REPORTING YEAR:

BUNDLE PRODUCTS

The introduction of the "Platinum Package" and "Einstein Youth Package" aims to provide advanced services tailored to customer needs, surpassing expectations. These packages offer various banking products and services with no additional fees for customers to enjoy.

DIGITALIZATION

In line with our strategic objective to transform into an environmentally friendly and technologically advanced financial institution, we have digitalized our range of products and services to meet to the needs of our customers. This initiative not only streamlines the banking process for our clients but also grants them convenient access to our services around the clock and from any location. The following products are included as part of this effort:

- Deposit agreement
- Pension loan
- Salary loan (available to all bank customers)
- Consumer loans
- Car purchase loan

MORTGAGE LOANS

To promote the decentralization of Ulaanbaatar and foster balanced local development, a novel mortgage loan product has been launched in collaboration with the Loan Guarantee Fund. Furthermore, a brand-new offering has been made available to customers, allowing them to reassess their existing housing loans from other banks and secure new ones. Additionally, enhancements have been made to the credit conditions for "Energy efficient housing loan," easing the collateral requirements of our customers.

FOREIGN CITIZENS

In an effort to broaden our consumer base, TDB has initiated the process of establishing current and savings accounts for international visitors traveling to Mongolia for business or leisure purposes. Notably, foreigners are not obligated to possess a residency permit in Mongolia as part of this service.

ХУРИМТЛАЛТАЙ МОНГОЛ

MONGOLIANS WITH SAVINGS

Our campaign, "Mongolians with savings", has been successfully executed for the fourth consecutive year. During this campaign, customers were incentivized for their savings by gaining the opportunity to save money and travel abroad. Moreover, the lucky winner of the grand prize received a TOWN HOUSE and over 500,000 customers participated in the 2023 campaign, acknowledging the significance of saving.

VISA DIRECT P2P

Our introduction of the Visa Direct P2P service is a pioneering product available in Mongolia, enabling international transfers using the Visa card and expanding the network from the base of 13 to 28 countries.

HAPPY PAY

In cooperation with Visa International organization, Happy pay incentive program has been launched to increase the use of visa cards and to enhance customer care. Through this program, a total of 2153 customers were given cash incentives in the reporting year.

CREDIT QUALITY OF CITIZENS

TDB paid great attention to improving the credit quality of its customers. In this context, our methods and analysis of the loan process have been improved and updated. Genesys cloud or call center system was also used to increase our reach to customers. As a part of this initiative, we were able to bring the loan portfolio of the consumer segment to the lowest level in the system which is 1.01%, resulting in some positive changes such as an increase in loan interest income and a decrease in risk fund expenses.

DIGITAL BANKING SERVICES

CARD AND PAYMENT SERVICES

As part of our mission to deliver customer-centric banking services, we have prioritized digital innovations aimed at providing rapid and remote access to our products and services.

We are pleased to report that in the past year, there has been a 17% increase in the number of payment card users compared to 2022. Furthermore, an impressive 37% of transactions made abroad using Visa cards from Mongolia were facilitated through our bank's Visa card services. This reaffirms our position as the largest and most reliable bank with card services in Mongolia.

17%+
Increase in number of TDB's payment cardholders

37%+
Percentage of transactions made abroad by Visa card

To achieve this success, we have implemented new card services, various incentive programs, and marketing campaign based on our customer behavior and usage.

Britto is extending a cashback bonus offer ranging from 3% to 20% to its Visa cardholders within Ulaanbaatar city, as well as over 200 local service organizations.

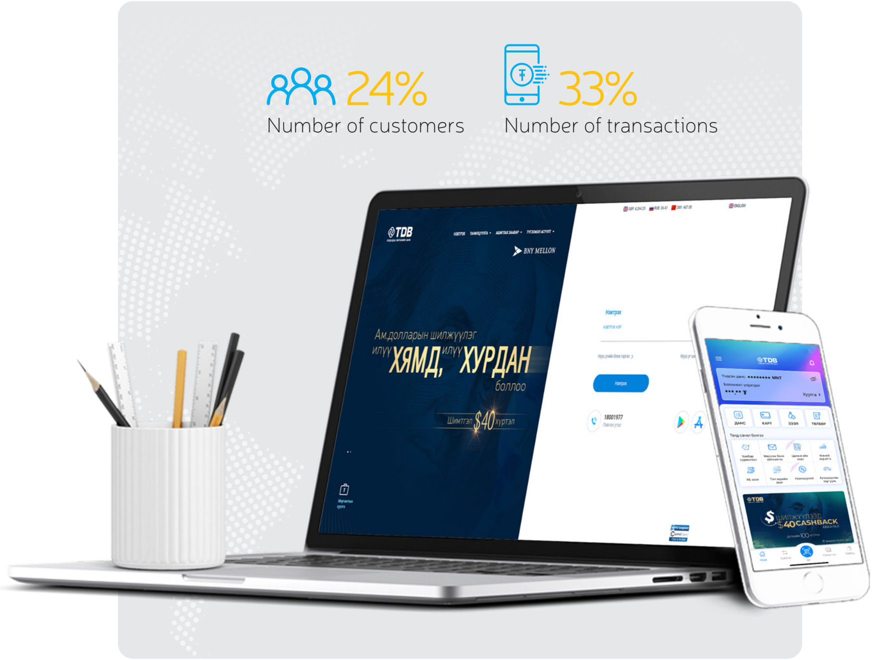
CASHBACK 3 - 20%

The introduction of the Einstein card featuring the famous German physicist Albert Einstein's portrait has proven to be a successful strategy in expanding the bank's customer base, particularly among youth. By integrating Cashback programs with our partner brands and platforms, the bank has experienced a consistent increase in card sales and transaction volumes. Notably, there has been a surge in international e-commerce transactions, highlighting the card's appeal and utility in the digital marketplace.

A new channel for receiving card orders, www.cardcentre.mn, has been introduced to simplify remote customer registration and product and service delivery. Using the new channel, we received 1,000 card orders online within an hour and made a historic sale.

TDB ONLINE

TDB Online has observed a significant growth in its user base, registering a notable 24% increase compared to the previous year. Correspondingly, the number of transactions made through the bank's online channel increased by 33%.



During the reporting period, several measures were implemented to promote the utilization of e-banking and e-channels, ensuring seamless operation. These initiatives included:

- TDB focused on strengthening its framework of online services to enhance operational speed, particularly for the mobile application.
- The bank introduced new online services, including pension loans and POS income-secured loans, enabling customers to conveniently access loans anytime and anywhere through the online platform.
- To support our customer's habit of creating savings, TDB introduced a new feature called "My Goal" in its mobile banking platform, designed to help customers set and achieve their desired financial goals effectively.
- Incorporated relevant developments aligned with the updated QR standards implemented by The Bank of Mongolia. This ensures that payments and transactions adhere to the new standards enhancing efficiency and compliance.
- To facilitate smooth payments for foreign citizens traveling to Mongolia, TDB introduced new bundle product for foreign travelers, enabling them to make payments seamlessly.

POS TERMINAL

The bank has expanded its network of POS terminals, resulting in a 9% increase in the number of POS merchants compared to the previous year. Additionally, the volume of transactions conducted through POS terminals experienced an 8% increase.

9% Number of Pos Merchants

8% Amount of transactions made through the POS terminal

The following updates have been made in order to quickly deliver banking services to merchant customers and meet their needs.

- QR codes are now displayed on the POS terminal screens, allowing customers to conveniently make payments using their mobile phones.
- Merchant organizations can now install and utilize an application internally on Android POS terminals.
- Acceptance of Visa payments directly at the POS terminals.
- The internal merchant registration system has been completely revamped.

ATM MACHINE

In the pursuit of enhancing customer service conditions, collaboration initially commenced with Golomt Bank in 2022. In the current reporting year, partnerships with The State Bank and Capitron Banks have also been initiated.

As part of this cooperative effort, the fee structure for spending transactions has been revised. Specifically, the fee for spending cash via self-service banking devices /ATMs, CDMs, CRMs/ has been significantly reduced from 500₮ to 100₮. This reduction in fees aims to alleviate the financial burden on customers and encourage more transactions through these channels.

As a result of the fee reduction, customers now can conduct transactions at discounted conditions at 280 ATMs of TDB, 410 ATMs of Golomt Bank, 328 ATMs of State Bank, and 29 ATMs of Capitron Bank locations. Hence, a total of 777 ATMs distributed throughout Ulaanbaatar city and local areas are now accessible under these favorable terms.

FEE:

500₮ > **100₮**

This collaborative effort seeks to improve accessibility, affordability, and overall customer experience across multiple banking networks, ultimately benefiting customers and fostering stronger relationships between partnering banks. Furthermore, we plan to cooperate on many issues aimed at improving the quality of interbank services and providing services that satisfy all customers.

CLEARING SERVICE

In the reporting year, the TDB solidified its position as the first and sole Clearing Bank in Mongolia's banking sector. The license to operate this ecosystem within the framework of the law was renewed without a deadline, reinforcing TDB's standing in the industry. Our clearing system has been connected to 4 out of 13 commercial banks in Mongolia, which is allowing them to receive business and technology services for their cards. Commercial banks incur significant overhead expenses to ensure the reliability of their payment systems, hardware and software, as well as system security. Obtaining permission to "Operate the system" and "Outsource services" enables us to reduce overhead costs and other fees. Furthermore, this shared service can be employed by NBFCs and fintech companies to offer dependable products and services to their clients at affordable prices.

КАПИТРОН БАНК

БОГД БАНК

АРИГ БАНК

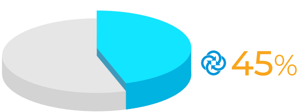
INTERNATIONAL BANKING AND FOREIGN RELATIONS

During the reporting period, the TDB efficiently facilitated foreign payments for its customers, handling transactions across a diverse range of 16 currencies. This was made possible through 77 nostro accounts held in 41 globally recognized banks, as well as 17 loro accounts maintained in 17 foreign banks and financial institutions.

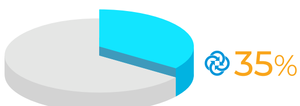
77	17	16
nostro accounts	loro accounts	currencies

In 2023, TDB achieved significant milestones in processing USD transactions originating from Mongolia. Specifically, the bank completed 45% of the total number and 35% of the total amount of USD transactions sent from Mongolia.

The number of USD transactions sent from Mongolia



Amount of USD transactions sent from Mongolia



About 35% of Mongolia's import letter of a credit, 58% of guarantee issued abroad, and 25% of the total were executed by TDB.

BNY MELLON

Mongolia marks pivotal moments in its banking sector with the establishment of a direct correspondent relationship with a major US clearing bank for the first time since the country was placed on the FATF gray list in 2019. We have a nostro account at The Bank of New York Mellon opened a new page in the history of the banking and financial sector of Mongolia.

MITSUI & CO.,LTD.

The collaboration between the TDB and Mitsui & Co., Ltd., one of Japan's largest group companies, has yielded significant accomplishments. The project aimed at supporting domestic cathode copper production and export, while also introducing international industrial standards to Mongolia. This initiative not only facilitates Mongolia's entry into foreign markets but also contributes to augmenting the country's foreign exchange reserves. Moreover, this collaboration marks the inception of a long-term partnership aimed at supporting trade development and fostering a strategic alliance between Mongolia and Japan

UniCredit

With the backing of the Italian export credit agency, SACE S.p.A, we facilitated the opening of a letter of credit amounting to approximately 4 million euros. Furthermore, UniCredit S.p.A bank successfully confirmed it, raising the level of cooperation with Italian banks and financial institutions level.

BankABC **ICBC** **COMMERZBANK** **Crown Agents Bank** **ODDO BHF ASSET MANAGEMENT**

Crown Agents Bank of the United Kingdom, ICBC Bank of China, ABC Bank of China, Commerzbank AG of Germany, and ODDO BHF SE have each increased their credit lines substantially. This expansion of credit lines presents enhanced opportunities for TDB to meet the diverse trade finance needs of its customers.

KFW DEG

By cooperating with the German Development Corporation (DEG), we have successfully provided customers with long-term, low-cost financing for a major project in the trade and service sector.

IBEC
International Bank For Economic Co-operation

In cooperation with the International Bank for Economic Cooperation (IBEC), the import project of cargo wagons purchased from suppliers in Kazakhstan and Estonia by a client operating in the road transport sector was successfully financed with a total value of 12.4 million euros. Also, in collaboration with the bank, we have provided over 30 million yuan of financing to customers operating in various fields such as road transport, foreign trade, and industry.

Shinhan Bank

TDB has diversified its infrastructure for providing fast and reliable foreign payment services to customers by expanding its network of correspondent banks. This expansion includes the opening of the US dollar and won nostro accounts at Shinhan Bank, a major South Korean bank. Not only does it broaden the bank's reach in terms of correspondent banking relationships but also reinforces its commitment to delivering high-quality financial services to its customers.

DBS BANK

By opening a US dollar nostro account with DBS Bank of Singapore, the largest bank in Southeast Asia, we have increased the channel for our customers to make US dollar transactions smoothly and securely.

TDB has renewed its cooperation with major Chinese state-owned banks and provided more than 60 million yuan of trade finance to customers.

TOKYO REPRESENTATIVE OFFICE

The representative office of TDB in Tokyo joined and cooperated with the MICS for SDG's 2023 program implemented by Japan's international cooperation organization JICA. The purpose of the program is to provide financial support to solve the problems faced in Mongolia's implementation of the UN's 17 Sustainable Development Goals through the cooperation, ideas and solutions of the government organizations and private sector of Japan and Mongolia.

Japan's Ministry of Economy, Trade and Industry (MEIT) together with Japan's Foreign Trade Promotion Agency (JETRO) organized a business partnership meeting involving more than 40 Japanese and Mongolian private sector organizations. Through these collaborative efforts, TDB plays a crucial role in connecting its customer organizations with Japanese government bodies and businesses. This initiative creates a platform for the exchange of ideas, information, and experiences, thereby opening up opportunities for collaboration, investment, and mutually beneficial partnerships between the two countries.

In cooperation with the Japan International Cooperation Organization (JICA), seminars and business partnership meetings were organized with the participation of more than 60 private sector organizations from both Japan and Mongolia. JICA invited representatives of about 20 Japanese companies operating in information technology and education to Mongolia. The Bank has initiated the development of business cooperation and partnership by inviting its customer organizations with the same direction of business activities as those organizations.

Japanese 12 companies engaged in real estate brokerage, trade, and commerce cooperated with the bank's representative office in Tokyo and based on information and advice, established their own subsidiary in Mongolia.

CUSTOMER SERVICE

Over the past year, we have diligently revised our customer service policy and bolstered our service standards to ensure swift, dependable, and top-notch assistance across all banking channels. As part of our continuous improvement efforts, we have embarked on projects to integrate Quality Management System ISO 9001:2015 and the Service Excellence ISO 23592:2022 standards. These initiatives are designed to align our customer service practices with internationally recognized benchmarks, thereby enhancing the overall customer experience. In 2023, following the ISO 23592:2021 standard, we have intensified our focus on various aspects of customer service, including the speed of feedback and complaint resolution, remote access to branch services, and reduced waiting times at bank branches and call centers.

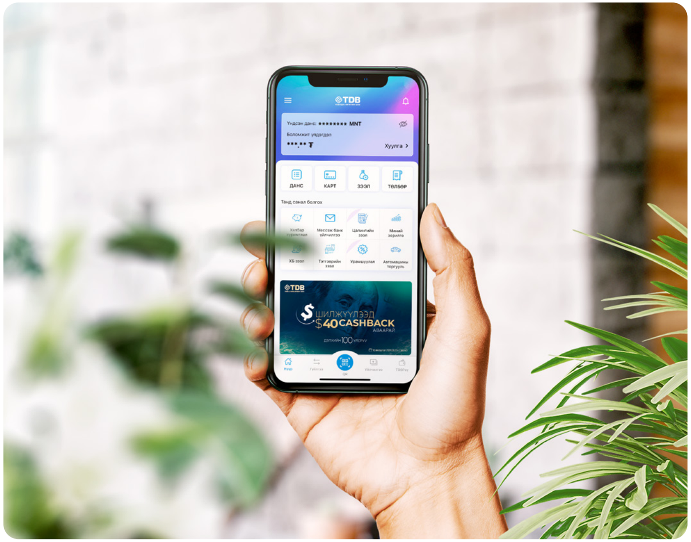
Our introduction of QR code banners across all branches facilitates swift resolution of issues, ensuring that every complaint is addressed within 1.5-5 working days.

During the reporting period, more than 20,000 disputed transaction requests and more than 6,000 comments and complaints submitted by customers were promptly resolved. Furthermore, our efforts have safeguarded customers from financial risks equivalent to MNT 9 billion.

6000 customer requests have been promptly resolved.

Protected customers from potential financial losses equivalent to **MNT 9 billion**

As part of our ongoing efforts to enhance customer service and streamline operations, we are committed to digitizing paper-based customer documents and transitioning towards paperless and digital solutions. Aligned with our customer service policy, we recognize the importance of providing efficient and sustainable services to our clients. To achieve this, we are actively working towards becoming a customer-centric, digital bank that delivers products and services without delay. One of our key strategies involves leveraging electronic channels provided by the state database, such as KHUR, DAN, E-Mongolia, and digital signature, for identifying and verifying customers. This approach not only enhances the overall customer experience but also minimizes our environmental footprint.



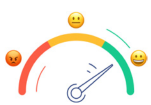
The bank and bank employees are following the “Banking Service Codex for the Protection of Customer Rights”, which is a unified standard for the protection of customer rights in the banking sector, presented by the Mongolian Banking Association, while implementing the customer service policy.

Banking services for the protection of customer rights codex

CUSTOMER SATISFACTION

TDB is committed to continuously measuring and enhancing the level of customer satisfaction and service quality. As part of our dedication to providing exemplary service, we regularly conduct satisfaction surveys from customers who have utilized our bank branches and call center services. By actively seeking feedback from our valued clients, we can better understand their needs and preferences, allowing us to tailor our services to meet and exceed their expectations.

+5%



94.2%

TREASURY MANAGEMENT

FOREIGN EXCHANGE

In the reporting year, Mongolia’s balance of payments recorded a surplus, contributing to a significant increase in official foreign currency reserves of the country, that surged by approximately 44.8% compared to the beginning of the year. The intensified coal exports and increased production in the mining sector were notable contributors to the stability of the exchange rate.

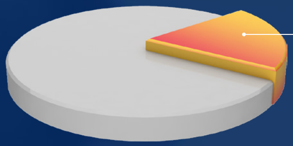
The Bank plays a pivotal role in the foreign exchange market, accounting for approximately 25.4% of the domestic foreign exchange trading market. Our steadfast presence and expertise ensured uninterrupted foreign and domestic payments for our clients, meeting their currency demands promptly and efficiently.

GOLD AND PRECIOUS METALS TRADING

As part of the "Gold-2" program, the Bank of Mongolia purchased gold from mining companies at a rate 5 percent higher than the international market rate. As a result of this measure, the Bank of Mongolia purchased 22.9 metric tons of physical gold in 2022, marking a 10 percent increase from the preceding year. However, the amount of gold purchased in 2023 remained relatively stable at 17.8 metric tons.

17.8 PERCENT INCREASE METRIC TONS OF PHYSICAL GOLD PURCHASED BY BANK OF MONGOLIA

TDB accounted for 23% of the total gold supplied to the market by the end of 2023, indicating a 6% increase from the previous year. Moving forward, our focus will be on digitalizing the process of receiving purity authentication from the authorities in physical gold trading to improve the efficiency and reduce costs for our customers.



Holds **23** percent of liquid securities in the domestic market.

MONEY MARKET

In 2023, we continued to satisfy the regulatory reserves and liquidity ratio requirements set by the Bank of Mongolia, while strengthening our leading position in the domestic money market. To improve the yields of our liquid assets, we actively participated in the overnight deposit on the money market and trading of Mongolian sovereign bonds issued on the international markets. Our future strategy involves scaling up investments in both international and domestic markets.

ASSET AND LIABILITY MANAGEMENT

In the reporting year, the policy rate was maintained at 13% in response to supply driven inflation exceeding the Central Bank's target. As the inflationary pressures escalate, we expect that the cost of funding in the banking industry could rise, and accordingly the lending rates could result in an increase.

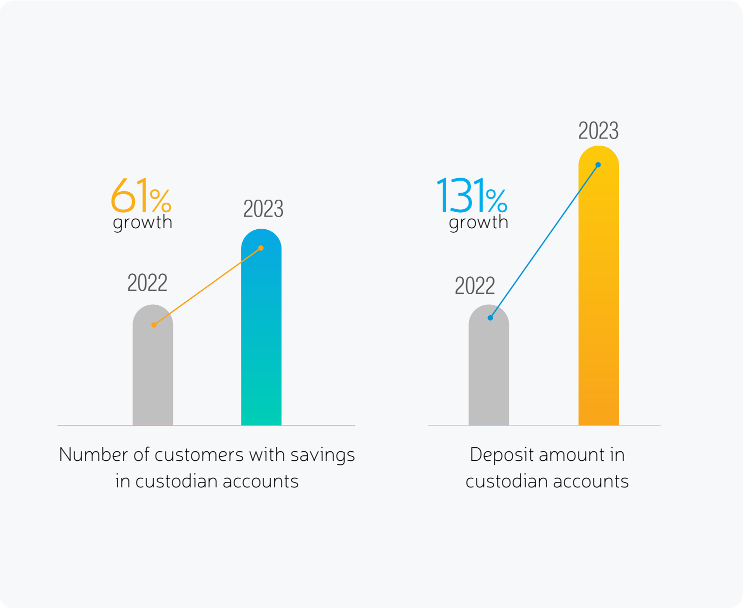
TDB has developed and implemented a comprehensive interest rate risk management strategy over the past 2 years, considering inflation expectations and policy interest rates expectations. The main objective is to maintain net interest income at an optimal level while mitigating interest rate risks effectively. We have focused on enhancing our forecasting models of medium to long-term interest rate risk and adopted it to our operations.

With Mongolia's foreign trade conditions improving and the money supply expanding beyond projections, TDB focused on liquidity management to prudently manage loans and deposits.

CUSTODIAN SERVICE

In 2023, the Bank experienced substantial growth in Custodian products and services, driven by our unwavering commitment to customer satisfaction. The number of customers depositing their assets in Custodian increased by 61%, reflecting the trust and confidence placed in our services. Additionally, the total assets under custody increased by 131%, underscoring the value proposition we offer to our clients.

Looking forward, our focus remains on expanding and enhancing the scope of Custodian products and services, to serve as the bridge for investment funds and qualified investors to invest in domestic and international markets and to provide products and services in line with best industry standards.



RISK MANAGEMENT FRAMEWORK

RISK MANAGEMENT

The long-term stability of financial institutions requires a capability to anticipate and identify all sorts of potential risks, identify right actions to mitigate risks with material impact and use risks as opportunity. In the reporting year, our Risk Management teams focused on identifying, evaluating the risk levels, reducing, preventing, and controlling various risks across various domains, including credit risk, market and liquidity risks, operational and interest rate risks, adopting international best practices of leading banks and financial institutions to ensure the stability of the bank's operations. Our efforts were not only geared towards ensuring operational stability but also towards improving risk awareness among employees and fostering a risk-aware culture throughout the bank.

Introduced Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)

Under the central bank's initiatives to introduce Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP); and in line with our strategic action plan and medium-term business plans, risk appetite, strategy to reduce non-performing assets, stress test results and risk policy, we comprehensively assessed key material risks, including credit, operational, market, interest rate, and concentration risks respectively and allocate equity towards those risks, as well as we evaluated the bank's capital adequacy and liquidity and funding risks in accordance with the Pillar II of the Basel III standard to ensure the continuous operation of TDB over short (12 months) and medium (3 years) term.

Introduced a scoring model for digitalization of retail and small and medium-sized business loans.

In the reporting year, the Bank successfully implemented a machine learning-based borrower scoring model in the loan operations of retail consumer loans and small and medium-sized business loans. As a result, certain types of loan requests are received and resolved through digital means, streamlining processes, and enhancing customer experience. Furthermore, we have refined the credit scoring model based on the results of back-testing the outcome of the model. This underscores our commitment to leveraging technology to optimize lending practices and deliver value to our customers.

CREDIT RISK MANAGEMENT

During the reporting year, updates were made to the credit risk guidelines and procedures to enhance risk management practices. The Bank revised its Corporate loans policy, Financing policy for sectors including mining, processing of raw material of livestock origin, manufacturing, and construction sectors in order to manage loan portfolio risks and reduce credit risks. The Bank employs various measures to manage credit risk, including setting limits for portfolio concentration, sectoral loan concentration, non-performing loans, borrowers' creditworthiness, and collateral adequacy. These efforts reflect our commitment to prudent risk management and ensuring the stability of our lending operations.

MARKET RISK MANAGEMENT

Market risk management considers potential losses of interest-sensitive trading financial instruments the bank holds, caused by fluctuations in exchange rate of foreign currencies, gold and commodities, stock prices, and market interest rates. The bank aims to effectively manage this risk by measuring, controlling, and reducing the potential losses. In 2023, the Bank implemented robust measures under above mentioned methods and to effectively manage this risk, aiming to measure, control, and minimize potential losses.

Three key methods of market risk management were implemented:

- The Bank calculates and reports open foreign exchange exposure limits per single currency and aggregate of all foreign currencies and capital requirement set by the central bank ratio indicators on a daily basis.
- In accordance with the Basel III standards, the Bank employs the sensitivity-based approach to determine the amount of capital required to cover potential losses.
- The Bank calculates the potential loss for next day arising from the total open position using the Value-at-Risk (VAR) method.

INTEREST RATE RISK MANAGEMENT

Interest rate risk management is a cornerstone of our operations at the Bank. We prioritize maintaining interest rate risk at prudent levels while optimizing the interest rates of our products in response to market dynamics. Our approach involves predicting the level of interest risk and potential losses resulting from changes in market interest rates, and promptly resolving any difficulties that arise.

In the reporting year, we adopted international standards that introduced early warning signals for detecting interest rate risks. Additionally, scenario assumptions were refined to align with Basel III standards, allowing us to better assess the sensitivity of our economic value of equity (EVE) and changes in net interest income (NII) to interest rate fluctuations.

LIQUIDITY RISK MANAGEMENT

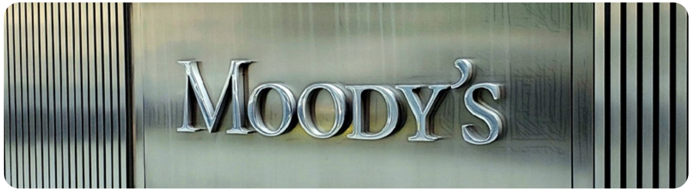
In 2023, TDB diligently managed liquidity risk in accordance with the Bank of Mongolia's criteria and international reference indicators. By setting limits and analyzing key metrics such as the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and Time to Wall, we ensured compliance and evaluated our liquidity position and risk-bearing capacity.

Furthermore, in alignment with the ILAAP regulation of the Bank of Mongolia, we prioritized maintaining sufficient reserves of liquid assets to fulfill our obligations to customers promptly and sustain the continuous operation of the Bank. This involved a comprehensive evaluation of short and medium-term liquidity risk, ensuring our ability to execute payments swiftly in accordance with our operations, business environment, strategic plan, and risk appetite.

Our liquidity risk management practices adhere to Basel Standard Pillar II, reflecting our commitment to prudently managing liquidity and safeguarding the stability of the Bank.

COUNTERPARTY AND COUNTRY RISK MANAGEMENT.

During the reporting year, in accordance with Moody's updated Bank Rating Methodology, the Bank enhanced the methodology of assessing the credit rating for each counterparty, established risk limits, and diligently monitored its compliance. Also, the client's risk policy has been revised and implemented by Basel III standards.



OPERATIONAL RISK MANAGEMENT

Operational risk management remains a top priority for the Bank, with a focus on identifying, assessing, and implementing controls to mitigate potential risks across all business activities, products, services, and new projects. We continue to apply and enhance internationally accepted operational risk management methodologies, ensuring alignment with industry standards and best practices.

Through the implementation of the "Risk Control Self-Assessment" method, each employee actively participated in identifying and mitigating risks associated with their functions, contributing to the creation of a comprehensive risk database. We established limits for potential operational losses and regularly monitored our risk appetite. Furthermore, to enhance monitoring capabilities, an integrated database of operational risk and a dedicated dashboard were developed, providing real-time insights for effective risk management.

DIGITAL RISK MANAGEMENT

In response to the rapid digitalization of banking products and services, we have implemented international methods and best practices to effectively manage digital risks in order to prevent the bank and its customers from being exposed to any potential risks.

For the seventh consecutive year, we have successfully met the PCI DSS (Payment Card Industry Data Security Standard) international standard for payment card security. This reaffirms our commitment to data security at all levels of the organization, including policies, systems, software, networks, card printing, delivery, and merchandising services.

INFORMATION TECHNOLOGY

In 2023, the Bank focused on improving its digital banking projects, upgrading core banking system, and improvement and maintenance of infrastructure and information technology and related activities across its operations. In the reporting year, the volume of bank transactions increased by 19% compared to the previous year, whereas volume of transactions through digital banking systems increased by 30%.

Efforts were made to streamline customer experience and automate daily operations by implementing various technological solutions aimed at supporting customer satisfaction and segment-specific services. The Bank also initiated collaborations with technology companies to introduce open-banking solutions, including automated loan approvals and fully digitalized transactions.

INNOVATIVE SOLUTIONS AND AUTOMATION

HAPPY PAY

The Bank introduced a new type of POS terminal, known as SOFT POS, to the payment card market. This innovative system is specifically designed for Android mobile merchants, offering support for both traditional and remote payment cards. The introduction of SOFT POS has provided our customers with increased convenience and reduced costs.

COMPLIANCE SYSTEM

The Bank implemented a new compliance system aimed at preventing violations related to compliance activities. This enabled us to mitigate the risk associated with cross- border transactions for our customers.

KHUR 1.5 SYSTEM INTEGRATION

Integration with the KHUR, state information exchange system enabled the implementation of automation solutions in banking operations. Leveraging this integration, we have successfully launched 13 services that are now accessible to our customers.

QR PAYMENT SOLUTION HAS BEEN INTRODUCED IN POS TERMINALS

In cooperation with Genesys System LLC, QR payment solution has been introduced in POS terminals.

INTRODUCED AGENT BANKING SOLUTION.

The Agent Bank system allows for the receipt and registration of consumer requests through the Agent organization. This enabled the delivery of banking products and services in rural areas.

PAYMENT CARD INDUSTRY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD

For the seventh consecutive year, TDB has achieved certification in PCI-DSS (Payment Card Industry Data Security Standard), a globally recognized standard for safeguarding privacy and security within the international payment card system.

VISA 3D SECURE 2.1 VERSION

Version 2.1 of the VISA 3D Secure standard has been introduced in the E-Commerce or online card payment system.

PRIVACY AND SECURITY IN PAYMENT CARD SYSTEMS

We upgraded our payment card transaction systems with Thales 10K privacy and security devices. This upgrade was implemented to enhance the privacy and security of our payment card transactions, ensuring the protection of sensitive customer information.

PAYMENT CARD CHIP TECHNOLOGY

In accordance with international standards, bank payment cards have been transferred to the UBJ31 G33 chip technology.

The semi-annual update of payment card system was enhanced through collaboration with VISA and MasterCard.

Successful certification in partnership with the Pulse Network.

Obtained SEDS certification in partnership with the Diners Club.

TDB introduced a new settlement system in col-laboration with JCB, the Japan Credit Bureau.

DIGITAL BANKING SYSTEM

CREDIT INFORMATION BUREAU

In collaboration with "Buren Score ZMS" LLC, we have enhanced the reference process of the credit information bureau. This improvement has enabled us to expedite the delivery of a wide range of financial services to customers.

POS TERMINAL

Merchant customers within our SMB segment who possess a POS terminal and stable income can now access loans based on the cash flow of their POS terminal via the Digital Banking system.

SALARY LOAN

TDB has fully automated its process of salary loans. Salary loans are now can accept applications and disbursed via the digital banking system to both our customers and non-TDB customers.

BUSINESS LOAN

TDB has introduced a digitalized credit evaluation process for its SMB customers. This initiative allows SMB customers to easily review their credit limits using our digital banking system.

PENSION LOAN

The Bank has introduced a solution for its senior customers to obtain a loan based on their pension income via the Digital Banking system.

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

Audited Financial Statements
31 December 2023

Contents	**Page**

General information

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

We, Randolph Koppa, being the Chairman of the Board of Directors of Trade and Development Bank of Mongolia JSC (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 2023, 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").

ХУДАЛДАА ХӨГЖЛИЙН БАНК ХК

Randolph Koppa	**Orkhon Onon**	**Enkhtuya Dulamjav**
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Ulaanbaatar, Mongolia

Date: 29 March 2024

EY
Building a better working world

Ernst & Young Mongolia Audit LLC
Suite 200, 8 Zovkhis Building
Seoul Street 21
Ulaanbaatar 14251
Mongolia

Tel : +976 11 314032 / +976 11 312005
Fax : +976 11 312042
ey.com

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Trade and Development Bank of Mongolia JSC

Opinion

We have audited the financial statements of Trade and Development Bank of Mongolia JSC (the "Bank"), which comprise the statement of financial position as at 31 December 2023, 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 material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, 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.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor`s Responsibilities for the Audit of the Financial Statements section of our report, including in relation to the matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Allowance for loan losses	
The impairment of loans and advances to customers at amortised cost is estimated by the Bank's management through the application of judgement and use of highly subjective assumptions. Due to significance of loans and advances to customers at amortised cost, representing around 39% of the Bank's total assets as at 31 December 2023, and the related estimation uncertainty we considered impairment of loans and advances to customers as a key audit matter. The impairment method is based on a forward-looking Expected Credit Loss ("ECL") approach. Elements of the ECL model requires significant estimates and assumptions, including: • Staging of financial assets; • Development of ECL models and the choice of inputs, including probability of default ("PD") and loss given default ("LGD");	For assessment of allowance for impairment losses of loans and advances to customers as of 31 December 2023, our audit procedures included the assessment of design and operating effectiveness of controls over the approval, recording and monitoring of ECL, and evaluating the methodologies, inputs and assumptions used by the Bank in its ECL model in calculation of impairment of loans and advances to customers. In evaluating the methodologies, we obtained an understanding of the Bank's ECL model and management's basis for methodologies and assumptions applied and assessed the reasonableness of the model and compared to industry practices. We also considered the reasonableness of the assumptions applied, including the basis for staging classification, and the appropriateness of determination of PD, LGD and EAD, and the forward-looking macroeconomic variables incorporated in the model.

Key Audit Matters (cont`d.)

Key audit matter	How our audit addressed the key audit matter
Allowance for loan losses (cont`d) • Determination of the Exposure at Default ("EAD"), including the credit conversion factor for the undrawn loan commitments, Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model, and • Calculation of allowance for impairment losses of individually assessed loans which are based on various assumptions and factors in determining the expected future cash flows. Relevant disclosures of the accounting policy and critical accounting estimates and judgements are included in Note 2.5 to the financial statements. Other relevant disclosures of loans and advances to the customers and related credit risk management are included in notes 2, 8, 17 and 33.2 to the financial statements, respectively.	In testing the appropriateness of the stage classifications, we have tested loan overdue information, credit ratings assigned to the counterparties, where applicable, at initial recognition and as at the reporting date. We have also tested the completeness of the ageing report by agreeing the amounts in the ageing report to the financial records and tested the adequacy of the ageing information based on a random sampling selection basis by verifying the information against other supporting documents. We compared the key inputs to the ECL model to the Bank's internal available historical data, externally available industry, financial and economic data. Our testing included the followings: • Tested the accuracy of internal and external data applied for the calculation of historical PD and LGD on a random selection basis; • Checked the macroeconomic parameters to external data sources where available; • Checked the appropriateness of the EAD applied, including the assumptions of the credit conversion factors; and • For a sample of individually assessed loans subject to individual impairment assessment, we reviewed the Bank's assumptions on the expected future cash flows, including assumptions in respect of the realizable value of collateral. We also considered the consistency of judgement applied in the key inputs to the ECL model. We assessed the adequacy of the related disclosure in the notes to the financial statements.

Other Information included in the Annual Report

The Directors and executives are responsible for the other information. The other information comprises the other sections of the Annual Report, but does not include the financial statements and our auditor's report thereon ("the Other Sections"), which are expected to be made available after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, to consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 skepticism throughout the audit. We also:

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

We communicate with 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Building a better working world

INDEPENDENT AUDITOR'S REPORT (CONT`D)

To the shareholders of Trade and Development Bank of Mongolia JSC (cont`d)

Other Matter

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

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by

Mandakhbayar Dorjbat
Partner

Approved by

Adrian Chu
Partner

Ulaanbaatar, Mongolia
Date: 29 March 2024

GLOSSARY OF ABBREVIATION

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

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

	Notes	2023 MNT'000	2022 MNT'000
Interest income calculated using the effective interest method	4	721,933,116	642,747,024
Other interest and similar income	4	42,779,283	31,331,028
Interest and similar expense	5	(469,048,440)	(354,478,116)
Net interest income		**295,663,959**	**319,599,936**
Fee and commission income	6	94,518,640	77,961,275
Fee and commission expense	6	(33,159,051)	(27,512,673)
Net fee and commission income		**61,359,589**	**50,448,602**
Trading and other operating income	7	54,690,488	13,924,925
Total operating income		**411,714,036**	**383,973,463**
Credit loss (expense)/reversal	8	(35,419,047)	28,297,839
Net operating income		**376,294,989**	**412,271,302**
Operating expenses	9	(183,760,346)	(172,790,891)
Share of profit of an associate	15	4,271,538	418,388
Profit before tax		**196,806,181**	**239,898,799**
Income tax expense	10.1	(45,587,714)	(45,650,106)
Profit for the year		**151,218,467**	**194,248,693**
Earnings per share (MNT)			
Basic and diluted earnings per share	11	3,043	4,041
Other comprehensive income/(loss) (net of tax):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Net change in fair value of debt instruments at fair value through other comprehensive income	29	17,862,582	(16,130,824)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):	29		
Revaluation gain on equity instruments at fair value through other comprehensive income	29	14,547,040	14,779,163
Gain on disposal of equity instrument at fair value through other comprehensive income	14	25,620,309	–
Other comprehensive income/(loss) (net of tax):		**58,029,931**	**(1,351,661)**
Total comprehensive income for the year, net of tax		**209,248,398**	**192,897,032**

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

Statement of financial position

At 31 December 2023

	Notes	2023 MNT'000	2022 MNT'000
ASSETS			
Cash and balances with Bank of Mongolia	**12**	2,308,730,146	1,756,207,294
Due from other banks and financial institutions	**13**	1,651,798,375	767,067,640
Financial assets at fair value through profit or loss	**14**	362,410,004	266,017,128
Debt instruments at fair value through other comprehensive income	**14**	1,510,534,627	1,079,812,762
Equity instruments at fair value through other comprehensive income	**14**	41,972,381	73,528,478
Equity instruments at fair value through profit or loss	**14**	1,700,000	–
Debt instruments at amortised cost	**14**	1,311,976	250,553,216
Investment in associate	**15**	5,196,223	924,685
Derivative financial instruments	**16**	172,188,577	265,374,431
Loans and advances to customers	**17**	4,933,457,222	4,137,182,398
Other assets	**18**	509,238,462	465,950,560
Investment properties	**19**	53,256,860	79,997,754
Assets held for sale	**20**	8,259,130	24,665,717
Property and equipment	**21**	567,974,583	470,625,143
Right-of-use assets	**22**	13,239,874	15,449,135
Intangible assets	**23**	25,308,105	1,421,361
TOTAL ASSETS		**12,166,576,545**	**9,654,777,702**
LIABILITIES			
Due to banks and other financial institutions	**24**	318,412,011	33,120,234
Repurchase agreements	**25**	51,285,052	316,804,791
Due to customers	**26**	9,086,817,412	6,207,309,405
Derivative financial instruments	**16**	159,109,749	166,203,537
Borrowed funds	**27**	872,667,777	1,418,831,195
Other liabilities	**28**	172,734,896	260,483,585
Lease liabilities	**22**	13,870,478	15,869,783
Income tax liabilities	**10.2**	76,907,413	55,742,118
Deferred tax liabilities	**10.3**	6,392,862	2,401,790
TOTAL LIABILITIES		**10,758,197,650**	**8,476,766,438**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	**29**	340,852,905	323,810,329
Share premium	**29**	64,069,779	664
Other reserves	**29**	313,673,176	258,908,980
Retained earnings		689,783,035	595,291,291
TOTAL EQUITY		**1,408,378,895**	**1,178,011,264**
TOTAL LIABILITIES AND EQUITY		**12,166,576,545**	**9,654,777,702**

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

	Share capital MNT'000 (Note 29)	**Share premium MNT'000** (Note 29)	**Other reserves MNT'000** (Note 29)	**Retained earnings MNT'000**	**Total equity MNT'000**
At 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 29)	–	–	–	(34,995,556)	(34,995,556)
Movement on regulatory reserve*	–	–	55,654,927	(55,654,927)	–
Share issue	404	664	–	–	1,068
At 31 December 2022 and 1 January 2023	**323,810,329**	**664**	**258,908,980**	**595,291,291**	**1,178,011,264**
Profit for the year	–	–	–	151,218,467	151,218,467
Other comprehensive income	–	–	32,409,622	25,620,309	58,029,931
Total comprehensive income	–	–	**32,409,622**	**176,838,776**	**209,248,398**
Realised revaluation reserve	–	–	(2,172,039)	2,172,039	–
Dividend (Note 29)	–	–	–	(59,992,458)	(59,992,458)
Movement on regulatory reserve*	–	–	24,526,613	(24,526,613)	–
Share issue	17,042,650	66,448,901	–	–	83,491,551
Transaction costs related to issuance of new shares	–	(2,379,860)	–	–	(2,379,860)
Transfer	(74)	74	–	–	–
At 31 December 2023	**340,852,905**	**64,069,779**	**313,673,176**	**689,783,035**	**1,408,378,895**

*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.

	Notes	2023 MNT'000	2022 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		196,806,181	239,898,799
Adjustments for:			
Changes in fair value of financial derivatives	**7**	2,719,591	(97,805,076)
(Gain)/Loss on disposal of property and equipment	**7**	(21,290)	133,393
(Gain)/Loss on disposal of assets-held-for sale, net	**9**	8,831	102,101
Valuation gain on investment properties	**7**	(2,873,791)	(95,125)
(Gain)/Loss on disposal of foreclosed properties, net	**7**	(2,097,115)	4,541,099
Gain on disposal of investment properties	**7**	(385,314)	–
Net modification loss from project mortgage loans	**7**	–	7,781,905
(Gain)/Loss on disposal of debt instrument measured at FVOCI	**7**	69,385	(125,429)
Modification loss on other loans receivables	**7**	8,311,181	13,861,532
Amortisation of deferred grant	**7**	(203,242)	(232,737)
Share of profit in associate	**15**	(4,271,538)	(418,388)
Credit loss expense/(reversal)	**8**	35,419,047	(28,297,839)
Depreciation of property and equipment	**9**	14,180,303	13,182,054
Amortisation of intangible assets	**9**	920,110	1,644,302
Depreciation of rights-of-use assets	**9**	6,782,507	5,345,669
Property and equipment written off	**9**	110,214	7,225,692
Intangible assets written off	**9**	1,809	1,685
Interest expense of borrowed funds	**5**	78,350,667	93,256,863
Interest expense of debt securities issued	**5**	–	6,326,356
Accretion of interest on lease liabilities	**5**	2,050,311	990,130
Unrealised foreign exchange differences of borrowed funds		34,187,679	97,002,614
Operating profit before working capital changes		**370,065,526**	**364,319,600**
Changes in operating assets and liabilities:			
Statutory deposits with BoM		(201,639,684)	(142,511,368)
Due from other banks and financial institutions		185,324,854	(29,676,880)
Loans and advances to customers		(808,036,358)	483,985,686
Assets-held-for sale		(6,592,824)	(24,334,203)
Other assets		(78,573,913)	(307,767,113)
Due to banks		285,291,777	19,181,521
Repurchase agreements		(265,519,739)	27,012,263
Due to customers		2,909,901,740	(59,001,114)
Other liabilities		(102,875,012)	(27,500,688)
Cash generated from operations		**2,287,346,367**	**303,707,704**
Interest portion of the lease liabilities paid		(2,050,311)	(990,130)
Interest paid on borrowed funds		(48,603,736)	(84,192,165)
Interest paid on debt securities issued		–	(6,466,630)
Income tax paid	**10.2**	(30,393,733)	–
Net cash flows generated from operating activities		**2,206,298,587**	**212,058,779**

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

	Notes	2023 MNT'000	2022 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial investments		(380,367,125)	(787,212,627)
Proceeds from disposal of financial investments		844,281,732	1,236,504,531
Proceeds from financial derivatives		81,431,276	34,144,815
Proceeds from disposal of property and equipment		3,943,285	8,792,270
Proceeds from dividend received	**14**	194,694	182,954
Purchase of property and equipment	**21**	(74,749,691)	(20,231,695)
Proceeds on disposal of investment properties		–	–
Purchase of intangible assets	**23**	(1,968,076)	(732,935)
Net cash flows generated from investing activities		**472,766,095**	**471,447,313**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from drawdown of borrowed funds		342,417,862	750,952,149
Repayment of borrowed funds		(952,421,711)	(845,690,067)
Payment of deferred upfront fees		(94,179)	(1,238,328)
Dividend paid	**29**	(47,198,750)	(33,841,116)
Repayment of debt securities		–	(160,000,000)
Proceeds from grant received	**28**	613,771	561,938
Proceeds from issuance of shares	**29**	81,111,691	1,068
Payment of principal portion of lease liabilities		(6,180,280)	(5,975,936)
Net cash flows (used in)/generated from financing activities		**(581,751,596)**	**(295,230,292)**
Net increase in cash and cash equivalents		**2,097,313,086**	**388,275,800**
Cash and cash equivalents brought forward	**12**	2,115,383,492	1,727,107,692
Cash and cash equivalents carried forward	**12**	**4,212,696,578**	**2,115,383,492**
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid		(419,723,524)	(363,844,513)
Interest received		738,867,664	805,020,573
NON-CASH ACTIVITIES			
Additions to right-of-use assets and lease liabilities	**22**	2,562,951	13,267,832
Modification of leases	**22**	2,020,078	156,856
Foreclosure of collaterals		8,697,682	26,583,542
Additions to property and equipment	**21**	63,652,848	–
Consideration for disposal of investment properties		(29,614,685)	–

Reconciliation of changes in liabilities arising from financing activities:

Lease liabilities	2023 MNT'000	2022 MNT'000
At 1 January	15,869,783	8,999,663
Non-cash additions	2,562,951	13,267,832
Lease modification	2,020,078	156,856
Termination of lease	(402,054)	(578,632)
Interest expense during the year	2,050,311	990,130
Interest portion of the lease liabilities paid	(2,050,311)	(990,130)
Principal portion of lease liabilities paid	(6,180,280)	(5,975,936)
At 31 December	**13,870,478**	**15,869,783**

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

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

	Borrowed funds MNT'000	Debt securities issued MNT'000
At 1 January 2022	**1,408,740,129**	**160,140,274**
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	(180,168,411)	(166,466,630)
Foreign exchange movement	97,002,614	–
Non-cash items arising from financing activities	97,002,614	–
Interest expense accrued and deferral amortisation	93,256,863	6,326,356
At 31 December 2022 and 1 January 2023	**1,418,831,195**	**–**
New disbursement	342,417,862	–
Repayment	(952,421,711)	–
Interest repayment	(48,603,736)	–
Deferred upfront fee	(94,179)	–
Net repayment	(658,701,764)	–
Foreign exchange movement	34,187,679	–
Non-cash items arising from financing activities	34,187,679	–
Interest expense accrued and deferral amortisation	78,350,667	–
At 31 December 2023	**872,667,777**	**–**

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

1. Corporate information

Trade and Development Bank of Mongolia JSC (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 joint stock company listed on the Mongolian Stock Exchange ("MSE") and incorporated and domiciled in Mongolia. Its registered office is at Trade and Development Bank of Mongolia building, Peace Avenue 19, Sukhbaatar district, 1st khoroo, Ulaanbaatar 14210, Mongolia.

The shareholders of the Bank with the percentage of ownership are disclosed in Note 29.

The financial statements for the year ended 31 December 2023 were authorised for issue in accordance with the resolution of the board of directors on 29 March 2024.

2. Material 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 35.

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.

• Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[1]
• Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[1]
• Amendments to IAS 1	*Non-current Liabilities with Covenants*[1]
• Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*[1]
• Amendments to IAS 21	*Lack of exchangeability*[2]
• Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an investor and its Associate or Joint Venture*[3]

[1]*Effective for annual periods beginning on or after 1 January 2024*
[2]*Effective for annual periods beginning on or after 1 January 2025*
[3]*No mandatory effective date yet determined but available for adoption.*

These amendments are not expected to have a material impact on the Bank's financial statements.

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.

Other amendments and interpretations that were applied for the first time in 2023 are summarised below:

- IFRS 17 — *Insurance Contracts*
- Amendments to IAS 8 — *Definition of Accounting Estimates*
- Amendments to IAS 1 and IFRS Practice Statement 2 — *Disclosure of Accounting Policies*
- Amendments to IAS 12 — *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to IAS 12 — *International Tax Reform – Pillar Two Model Rules*

These amendments had no material impact on the financial statements of the Bank during the period.

2.5 Summary of material accounting policies

Foreign currency translation

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

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

Recognition of interest income

The effective interest rate method

Interest income is recorded using the effective interest rate ("EIR") method for all financial instruments measured at amortised cost ("AC") 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).

2.5 Summary of material accounting policies (contd.)

Recognition of interest income (contd.)

The effective interest rate method (contd.)

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.

Interest and similar income/expense

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

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

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

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

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

Fees and commission income

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

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

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

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

Fee income from providing transaction services

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

2.5 Summary of material accounting policies (contd.)

Recognition of interest income (contd.)

Fee income forming an integral part of the corresponding financial instrument

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

Fees and commission expense

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

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

Net trading income

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

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

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

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

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

Financial instruments – initial recognition

Date of recognition

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

2.5 Summary of material accounting policies (contd.)

Financial instruments – initial recognition (contd.)

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.

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.

2.5 Summary of material accounting policies (contd.)

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).

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.

2.5 Summary of material accounting policies (contd.)

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

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 14. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

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

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

Borrowed funds and debt securities issued

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

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

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

2.5 Summary of material accounting policies (contd.)

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

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.

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.

2.5 Summary of material accounting policies (contd.)

Modification of financial assets and liabilities (contd.)

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

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.

2.5 Summary of material accounting policies (contd.)

Derecognition of financial assets and liabilities (contd.)

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.

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 32.

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 32.

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.

2.5 Summary of material accounting policies (contd.)

Impairment of financial assets (contd.)

Overview of the ECL principles (contd.)

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.

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.

2.5 Summary of material accounting policies (contd.)

Impairment of financial assets (contd.)

Calculation of ECL (contd.)

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

Debt instruments measured at FVOCI

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

Credit cards and other revolving facilities

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

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

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

Forward looking information

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

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

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

2.5 Summary of material accounting policies (contd.)

Credit enhancements: Collateral valuation and financial guarantees

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

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

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

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

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

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.

2.5 Summary of material accounting policies (contd.)

Investment in associate (contd.)

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

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

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

Cash and bank balances

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

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

Repurchase and reverse repurchase agreements

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

2.5 Summary of material accounting policies (contd.)

Leases (contd.)

Lease liabilities (contd.)

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

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

Short-term leases

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

Determining the lease term of contracts with renewal options

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

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

Property and equipment

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

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

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

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

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

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

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

2.5 Summary of material accounting policies (contd.)

Property and equipment (contd.)

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

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

Intangible assets

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

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

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

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

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

Investment properties

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 properties only when there is a change in use. For a transfer from investment properties 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 properties 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.

2.5 Summary of material accounting policies (contd.)

Impairment of non–financial assets

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

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

Employee benefits

Short term benefits

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

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

Defined contribution plans

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

Provisions

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

Segment reporting

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

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.

2.5 Summary of material accounting policies (contd.)

Taxes (contd.)

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

Equity

Share capital

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

Share premium

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

Retained earnings

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

Asset revaluation reserve

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

Regulatory reserve

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

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 34.

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.

Measurement of impairment losses

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 33 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 2023 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 33.

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 35.60% (effective interest of 35.60%) 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

	2023 MNT'000	2022 MNT'000
Interest income calculated using the effective interest method		
Loans and advances to customers	502,863,241	475,595,163
Debt instrument at FVOCI	122,654,748	79,036,606
Debt instrument at amortised cost	19,219,201	65,525,281
Cash and balances with BoM	37,570,628	13,062,605
Due from banks and financial institutions	39,322,246	8,711,102
Reverse repurchase agreements	303,052	816,267
	721,933,116	**642,747,024**
Other interest and similar income		
Financial assets at FVTPL	31,745,201	19,544,616
Loans and advances to customers measured at FVTPL	11,034,082	11,786,412
	42,779,283	**31,331,028**

5. Interest and similar expenses

	2023 MNT'000	2022 MNT'000
Due to customers	375,598,199	227,586,554
Borrowed funds	78,350,667	93,256,863
Repurchase agreements	10,962,353	19,796,976
Debt securities issued	–	6,326,356
Due to banks and financial institutions	2,086,910	6,521,237
Lease liabilities (Note 22)	2,050,311	990,130
	469,048,440	**354,478,116**

6. Net fees and commission income

	2023 MNT'000	2022 MNT'000
Fees and commission income from providing financial services at a point in time:		
Card service	39,441,990	34,325,781
Wire transfer	18,975,795	16,846,301
Loan related service	9,789,095	4,831,542
Mobile and internet-banking service	7,581,552	6,356,065
Others	3,556,703	2,857,941
	79,345,135	**65,217,630**
Fee income earned from services that are provided over time		
Financial guarantee	12,084,388	9,871,697
Card service	3,089,117	2,871,948
	15,173,505	**12,743,645**
Total fee income	**94,518,640**	**77,961,275**
Fees and commission expenses		
Card service charges	27,875,380	22,960,261
Others	5,283,671	4,552,412
	33,159,051	**27,512,673**
Net fees and commission income	**61,359,589**	**50,448,602**

7. Trading and other operating income/(expenses)

	2023 MNT'000	2022 MNT'000
Foreign exchange gain/(loss), net	43,851,423	(65,052,424)
Valuation gain on investment property (Note 19)	2,873,791	95,125
Gain/(loss) on disposal of foreclosed properties, net	2,097,115	(4,541,099)
Fair value change of equity instrument at FVTPL	1,700,000	–
Precious metal trading gain, net	1,630,146	6,053,482
Gain on disposal of investment property	385,314	–
Amortisation of deferred grant (Note 28)	203,242	232,737
Dividend income (Note 14)	194,694	182,954
Gain/(loss) on disposal of property and equipment, net	21,290	(133,393)
Modification loss on other loans receivables (Note 18)	(8,311,181)	(13,861,532)
Net swap interest expense	(7,137,392)	(8,464,794)
Unrealised gain/(loss) on fair value of derivatives	(2,719,591)	97,805,076
Gain/(loss) of fair value of financial investments at FVOCI	(69,385)	125,429
Net modification loss from project mortgage loans (Note 17)	–	(7,781,905)
Gain/(loss) on disposal of asset-held-for sale, net	–	(102,101)
Others	19,971,022	9,367,370
	54,690,488	**13,924,925**

8. Credit loss expense/(reversal)

	2023 MNT'000	2022 MNT'000
Other assets (Note 18)	20,194,888	14,566,431
Loans and advances to customers (Note 17)	11,761,534	(40,484,584)
Credit commitment (Note 31)	3,116,152	(2,380,577)
Debt instrument measured at FVOCI (Note 14)	334,357	226,875
Balances with BoM (Note 12)	138,967	52,543
Due from other banks and financial institutions (Note 13)	35,986	349
Debt instrument measured at amortised cost (Note 14)	(162,837)	(278,876)
	35,419,047	**(28,297,839)**

9. Operating expenses

	2023 MNT'000	2022 MNT'000
Personnel expense	88,706,960	77,025,204
Insurance	16,126,922	7,473,497
Depreciation on property and equipment (Note 21)	14,180,303	13,182,054
Advertising and public relations	14,280,646	14,778,631
Professional services fee	6,977,664	7,153,613
Depreciation of right-of-use assets (Note 22)	6,782,507	5,345,669
IT maintenance	6,651,094	5,686,303
Technical assistance and foreign bank remittance fee	5,431,175	4,179,474
Stationery and supplies	4,064,581	4,040,166
Communication	3,376,244	3,184,130
Utility expenses	1,701,473	1,324,706
Business travel expenses	1,530,279	907,891
Security	1,263,146	247,803
Repairs and maintenance	1,040,921	2,292,005
Amortisation of intangible asset (Note 23)	920,110	1,644,302
Rental expense	773,674	537,900
Training expenses	646,280	395,602
Reception and entertainment	507,053	1,196,952
Transportation	506,333	583,593
Cash handling	461,967	967,593
Write-off of property and equipment (Note 21)	110,214	7,225,692
Loss on disposal of asset held for sale	8,831	–
Write-off of intangible assets (Note 23)	1,809	1,685
Others	7,710,160	13,416,426
	183,760,346	**172,790,891**

The professional service fee includes audit fees charged by the auditors, amounting to MNT 992,574 thousand (2022: MNT 915,263 thousand).

10. Income taxes

10.1 Income tax expense

The income tax expense for the year ended 31 December 2023 is:

	2023 MNT'000	2022 MNT'000
Income tax:		
Current income tax	45,160,560	52,883,282
Adjustment in respect of current income tax of prior years	–	(8,775,015)
Deferred tax:		
Relating to temporary differences (Note 10.3)	427,154	1,541,839
	45,587,714	**45,650,106**

10. Income taxes (contd.)

10.1 Income tax expense (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% (2022: 10%) for the first MNT 6 billion (2022: MNT 6 billion) of taxable income and 25% (2022: 25%) on the excess of taxable income over MNT 6 billion (2022: 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 2023 is as follows:

	2023 MNT'000	2022 MNT'000
Profit before income tax	196,806,181	239,898,799
Tax at statutory rate of 25% (2022: 25%)	49,201,545	59,974,700
Effect of expenses not deductible for income tax purpose	8,153,101	15,244,967
Special tax rate	941,635	1,047,492
Effect of non-taxable income	(1,410,671)	(957,973)
Tax rate difference	(4,315,919)	(1,703,595)
Effect of income exempted from taxation	(6,774,069)	(16,735,241)
Effect of tax credit	(207,908)	(37,852)
Adjustment in respect of current income tax of prior years	–	(8,775,015)
Utilisation of previously unrecognised tax losses	–	(2,407,377)
Tax expense	**45,587,714**	**45,650,106**

The effective income tax rate for 2023 is 23.16% (2022: 19.03%).

10.2 Income tax liabilities

	2023 MNT'000	2022 MNT'000
Income tax liabilities as at 1 January	55,742,118	12,499,999
Income tax expense for the year	45,160,560	52,883,282
Adjustment in respect of current income tax of prior years	–	(8,775,015)
Income tax of non-recycling financial investment at FVOCI	7,340,103	–
Withheld by third parties	(941,635)	(866,148)
Tax paid	(30,393,733)	-
Income tax liabilities as at 31 December	**76,907,413**	**55,742,118**

10.3 Deferred tax liabilities

As at 31 December 2023	As at 1 January 2023 MNT'000	Recognised in other comprehensive income MNT'000	Recognised in profit or loss MNT'000	As at 31 December 2023 MNT'000
Deferred tax (assets)/liabilities				
Revaluation of financial investments measured at FVOCI	254,219	3,563,918	–	3,818,137
Revaluation of derivative financial instruments	3,058,458	–	–	3,058,458
Share of profit of an associate	(957,759)	–	427,154	(530,605)
Lease liabilities and ROU asset	46,872	–	–	46,872
	2,401,790	**3,563,918**	**427,154**	**6,392,862**

10. Income taxes (contd.)

10.3 Deferred tax liabilities (contd.)

As at 31 December 2022 Deferred tax (assets)/liabilities	As at 1 January 2022 MNT'000	Recognised in other comprehensive income MNT'000	Recognised in profit or loss MNT'000	As at 31 December 2022 MNT'000
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**

11. Earnings per share

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

	2023 MNT'000	2022 MNT'000
Profit attributable to ordinary equity holders - basic and diluted	151,218,467	194,248,693
Adjusted weighted average number of ordinary shares for EPS	49,690,110	48,070,860
Earnings per share		
	MNT	**MNT**
Equity holders of the Bank for the period:		
Basic earnings per share	3,043	4,041
Diluted earnings per share	3,043	4,041

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year and adjusted by the share split made during the year (See Note 29).

12. Cash and balances with Bank of Mongolia

	2023 MNT'000	2022 MNT'000
Cash on hand	68,202,441	69,650,934
Current accounts with BoM	1,049,656,108	824,923,439
Deposit accounts with BoM	1,191,259,381	861,881,738
Gross carrying amount	**2,309,117,930**	**1,756,456,111**
Less: Allowance for impairment losses on balances with BoM	(387,784)	(248,817)
Net cash and balances with BoM	**2,308,730,146**	**1,756,207,294**

Current accounts with BoM are maintained in accordance with BoM regulations. The balances maintained with BoM are determined at not less than 8.0% (2022: 8.0%) of customer deposits for local currency and not less than 18.0% (2022: 18.0%) of customer deposits for foreign currency based on average balance of two weeks.

As at 31 December 2023, the average reserves required by BoM for that period of two weeks were MNT 323,409,967 thousand (2022: MNT 214,059,644 thousand) for local currency and MNT 738,326,513 thousand (2022: MNT 646,037,152 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 2023 and 2022, 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 32:

	12 month PD range	Total Exposure at default Stage 1 MNT'000	ECL Stage 1 MNT'000
31 December 2023	2.447%	2,240,915,489	(387,784)
31 December 2022	2.373%	1,686,805,177	(248,817)

An analysis of changes in the ECL allowance as at 31 December 2023 and 2022 are as follows:

	2023 MNT'000	2022 MNT'000
At 1 January	248,817	196,274
Net charge for the year (Note 8)	138,967	52,543
At 31 December	**387,784**	**248,817**

Additional cashflow information

	2023 MNT'000	2022 MNT'000
Cash and balances with BoM (Note 12)	2,309,117,930	1,756,456,111
Due from banks and financial institutions (Note 13)	1,651,839,858	767,073,137
Unquoted BoM treasury bills - less than three months (Note 14)	1,363,375,430	949,566,385
Gross carrying cash and cash equivalents amount	**5,324,333,218**	**3,473,095,633**
Less: Minimum reserve with the BoM not available to finance the Bank's day to day operations	(1,061,736,480)	(860,096,796)
Less: Placement with foreign bank as cash collateral	(3,644,263)	(188,969,117)
Less: Unquoted BoM treasury bills - less than three months held as collateral	(46,255,897)	(308,646,228)
Net cash and cash equivalents	**4,212,696,578**	**2,115,383,492**

13. Due from other banks and financial institutions

	2023 MNT'000	2022 MNT'000
Current accounts with foreign banks and financial institutions	860,814,839	411,613,586
Placement with foreign bank as cash collateral	3,644,263	188,969,117
Current accounts with local banks and financial institutions	5,085,812	3,921,113
Placement with foreign banks and financial institutions	488,141,631	162,569,321
Placement with local banks and financial institutions	294,153,313	–
Gross carrying amount	**1,651,839,858**	**767,073,137**
Less: Allowance for impairment losses	(41,483)	(5,497)
Net due from banks and other financial institutions balance	**1,651,798,375**	**767,067,640**

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 32.

	12 month PD range	Total Exposure at default Stage 1 MNT'000	ECL Stage 1 MNT'000
At 31 December 2023			
Internal rating grade			
A- to AA+ rated	0.011% - 0.043%	1,344,103,021	3,437
BBB- to BBB+	0.1725%	1,618,714	4
B- to BB+	0.687% - 2.735%	300,956,089	37,127
Not rated	10.89%	5,162,034	915
		1,651,839,858	**41,483**
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**

An analysis of changes in the ECL allowance as at 31 December 2023 and 2022 are as follows:

	2023 Stage 1 MNT'000	2022 Stage 1 MNT'000
Gross carrying amount as at 1 January	**767,073,137**	**504,422,698**
New assets originated or purchased	57,190,702,069	393,377,371
Repaid amounts	(56,296,422,836)	(160,522,920)
Foreign exchange adjustments	(9,512,512)	29,795,988
At 31 December	**1,651,839,858**	**767,073,137**
ECL allowance as at 1 January	**5,497**	**5,148**
New assets originated or purchased	32	3,558
Assets derecognised or repaid (excluding write-offs)	(2,323)	(168)
Changes to assumptions	38,277	(3,041)
Net charge for the year (Note 8)	35,986	349
At 31 December	**41,483**	**5,497**

14. Financial investments

	2023 MNT'000	2022 MNT'000
Debt instruments measured at FVOCI:		
Government USD bond (a)	105,989,124	102,883,542
Bank of Mongolia bills (b)	1,363,375,430	949,566,385
MIK USD bond (c)	41,170,073	27,362,835
	1,510,534,627	**1,079,812,762**
Equity instruments measured at FVOCI		
Unquoted equities (d)	3,168,023	3,168,532
Quoted equities (e)	38,804,358	70,359,946
	41,972,381	**73,528,478**
Equity instruments measured at FVTPL		
Unquoted equities (f)	1,700,000	–
	1,700,000	**–**
Debt instruments at amortised cost		
Government bonds (g)	–	242,599,801
Loan backed securities - Senior tranche (h)	1,311,976	7,953,415
	1,311,976	**250,553,216**
Financial assets at FVTPL		
Residential mortgage-backed securities (i)	360,010,446	260,184,968
Loan backed securities - Junior tranche (h)	2,399,558	5,832,160
	362,410,004	**266,017,128**
	1,917,928,988	**1,669,911,584**

(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 Visa Inc. The Bank received dividend of MNT 194,694 thousand from its investment in Visa Inc (2022: MNT 182,954 thousand). During the year, the Bank disposed its quoted equity security in Mongolian Mining Corporation and recognised gain of MNT 32,960 million (net of tax amount as MNT 25,620 million) disclosed under other comprehensive income.
(f) Unquoted equity securities represent Bank`s investment made Mongolian National Rare Earth Corporation LLC and Bank holds 10% of shares of the company.
(g) Government bonds are unquoted interest-bearing bonds issued by the Government of Mongolia ("GoM") which have fully matured in 2023.
(h) 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).
(i) Residential mortgage-backed securities ("RMBSs") represent Junior and Senior tranche of an interest-bearing long-term securities issued by MIK (see Note 17).

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 2023 and 2022, 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 32.

	2023 Fair value/ Gross carrying amount MNT'000	ECL MNT'000	2022 Fair value/ Gross carrying amount MNT'000	ECL MNT'000
Debt instruments at FVOCI				
As at 1 January	1,079,812,762	717,436	1,754,434,647	490,561
New assets originated or purchased	9,232,252,460	935,714	10,855,406,821	485,116
Payments and assets derecognised	(8,819,778,863)	(608,578)	(11,531,546,548)	(258,241)
Changes in fair value	5,751,514	7,221	(18,175,222)	–
Foreign exchange adjustments	12,496,754	–	19,693,064	–
Net charge for the year (Note 8)	–	334,357	–	226,875
As at 31 December	**1,510,534,627**	**1,051,793**	**1,079,812,762**	**717,436**
Debt instruments at AC				
As at 1 January	250,731,568	178,352	591,136,516	457,228
New assets originated or purchased	2,823,891	15,515	25,860,700	49,096
Payments and assets derecognised	(252,227,968)	(178,352)	(366,265,648)	(327,972)
Net (reversal) for the year (Note 8)	–	(162,837)	–	(278,876)
As at 31 December	**1,327,491**	**15,515**	**250,731,568**	**178,352**

15. Investment in associate

As of 31 December 2023, the Bank holds 10.00% (2022: 10.00%) (or effective holding around 13.58% (2022: 13.58%) taking into account of the effect of treasury shares) in MIK (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 MSE. The Bank holds a total of 2,070,932 MIK shares as of 31 December 2023 (2022: 2,070,932 shares), the closing price of MIK shares at MSE at 31 December 2023 was MNT 22,000 per share (2022: MNT 20,260 per share).

As of the date of this report, MIK has issued its audited financial statements for the year ended 31 December 2023. The Bank's interest in MIK is accounted for using the equity method based on MIK's audited financial statements as at 31 December 2023 (2022: Management account).

	MNT'000
1 January 2022	506,297
Share of profit of an associate for the year	418,388
At 31 December 2022 and 1 January 2023	**924,685**
Share of profit of an associate for the year	3,817,834
Adjustment in Company's share of profit/loss of prior year	453,704
Total share of profit of an associate	4,271,538
At 31 December 2023	**5,196,223**

15. Investment in associate (contd.)

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

	2023 MNT'000	2022 MNT'000
Investee: MIK		
Total assets	5,180,166,368	4,551,197,297
Total liabilities	(5,141,902,576)	(4,544,388,129)
Equity	38,263,792	6,809,168
Bank's share of equity 13.58% (2022: 13.58%)	**5,196,223**	**924,685**
Net interest income for the year	83,224,706	80,832,933
Total comprehensive income for the year	28,113,656	3,080,311

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	Fair value	
	MNT'000	Assets MNT'000	Liabilities MNT'000
At 31 December 2023			
Derivatives held for trading			
Cross-currency interest rate swaps with MIK and BoM (a)	515,730,880	1,135,791	152,977,717
Cross-currency interest rate swaps with BoM (b)	726,552,450	167,518,868	6,132,032
Cross-currency interest rate swaps with others (c)	62,351,320	3,533,918	–
	1,304,634,650	**172,188,577**	**159,109,749**
At 31 December 2022			
Derivatives held for trading			
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 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 32.

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 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 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) The Bank entered into cross-currency interest rate swap agreements with Digital Concept LLC (derivative financial liability) on 14 August 2023 and 2 October 2023, respectively, and entered into respective offsetting position with BoM (derivative financial asset) on the same days, whereby the Bank has acted as an intermediary institution. At initiation, the Bank received USD funds from Digital Concept LLC 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 SOFR plus certain margin and pays interest on MNT funds at the central bank policy rate. Whereas during the term of the agreement with the company, 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 repo rate plus 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.

17. Loans and advances to customers

	2023 **MNT'000**	**2022** **MNT'000**
Corporate	3,346,336,133	3,238,302,119
Retail loan	1,128,045,255	609,782,895
Small and Medium-sized enterprise (SME)	598,955,743	419,507,830
Loans to executives, directors and staffs	23,475,898	19,397,814
Gross loans and advances to customers	**5,096,813,029**	**4,286,990,658**
Allowance for impairment losses	(411,987,392)	(480,684,826)
Net loans and advances to customers	**4,684,825,637**	**3,806,305,832**
Loans and advances to customers at FVTPL	248,631,585	330,876,566
Total loans and advances to customers	**4,933,457,222**	**4,137,182,398**

Transferred financial assets that are derecognised in their entirety

Sale of mortgage pools

During the year the Bank sold 100% of the rights of the cash flows arising from portfolios of fixed rate mortgage loans to wholly owned special purpose companies of MIK in exchange for RMBS. The Bank derecognised the loan portfolio amounting to MNT 279,126,790 thousand (2022: MNT 191,776,365 thousand) 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 an quarterly servicing fee of 2.5% of serviced amount. The total servicing fee recognised in 2023 amounts to MNT 5,205 million (2022: MNT 2,003 million) included within Fees and commission income.

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.

17. Loans and advances to customers (contd.)

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

S*ale 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 derecognised a total of MNT 3.503 million (2022: MNT 28,561 million) of SME loans which was initially originated 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% p.a (2022: 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 2023 amounts to MNT 60,805 thousand (2022: MNT 96,047 thousand) included within Fees and commission income.

Loans and advances to customers at FVPL

As of 31 December 2023, the Bank holds mortgage portfolio of loans and advances to customers to be sold to MIK amounting to MNT 248,632 million (2022: 319,335 million) and loan portfolio to be sold to SFC was nil (2022: 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 which fully paid in 2023 (See Note 28). 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 nil as at 31 December 2023 (2022: MNT 143,281 million).

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 32.

At 31 December 2023	**Corporate MNT'000**	**SME MNT'000**	**Retail MNT'000**	**Total MNT'000**
Gross carrying amount as at 1 January 2023	**3,238,302,119**	**420,167,378**	**628,521,161**	**4,286,990,658**
New assets originated or purchased	1,225,001,918	368,596,902	913,846,138	2,507,444,958
Assets derecognised or repaid	(1,014,257,559)	(183,611,608)	(391,952,628)	(1,589,821,795)
Net movement on accrued interest	(11,718,519)	(1,372,942)	488,148	(12,603,313)
Movement on segment change	4,145,829	(4,145,829)	–	–
Write-offs	(78,326,253)	(14,247)	(16,456)	(78,356,956)
Foreign exchange adjustments	(16,811,402)	(4,189)	(24,932)	(16,840,523)
At 31 December 2023	**3,346,336,133**	**599,615,465**	**1,150,861,431**	**5,096,813,029**

17. Loans and advances to customers (contd.)

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

	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
At 31 December 2023				
ECL allowance as at 1 January 2023	**429,176,309**	**33,990,825**	**17,517,692**	**480,684,826**
New assets originated or purchased	31,557,019	5,312,242	2,847,530	39,716,791
Assets derecognised or repaid	(29,181,950)	(9,156,939)	(5,413,433)	(43,752,322)
Net movement on accrued interest	6,940,724	239,847	270,390	7,450,961
Impact on ECL from stage transfers and input changes	1,532,900	5,866,785	946,419	8,346,104
Impact on ECL from segment changes	66,847	(66,847)	–	–
Net charge for the year (Note 8)	10,915,540	2,195,088	(1,349,094)	11,761,534
Write-offs	(78,326,253)	(14,247)	(16,456)	(78,356,956)
Foreign exchange adjustments	(2,087,581)	147	(14,578)	(2,102,012)
At 31 December 2023	**359,678,015**	**36,171,813**	**16,137,564**	**411,987,392**
At 31 December 2022				
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 on 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**
At 31 December 2022				
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 reversal 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**

	Corporate MNT'000	SME MNT'000	Retail MNT'000	Total MNT'000
At 31 December 2023				
Performing	2,386,451,751	554,897,185	1,127,526,777	4,068,875,713
Special mention	391,754,945	4,121,198	5,528,808	401,404,951
Substandard	132,326,310	12,540,207	4,684,732	149,551,249
Doubtful	123,447,377	2,474,805	1,296,954	127,219,136
Loss	312,355,750	25,582,070	11,824,160	349,761,980
Total	**3,346,336,133**	**599,615,465**	**1,150,861,431**	**5,096,813,029**
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**

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:

Corporate loan	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2023	**1,388,205,286**	**1,065,059,888**	**785,036,945**	**3,238,302,119**
New assets originated or purchased	1,225,001,918	–	–	1,225,001,918
Assets derecognised or repaid	(856,280,160)	(50,136,183)	(107,841,216)	(1,014,257,559)
Net movement on accrued interest	(5,858,253)	13,286,446	(19,146,712)	(11,718,519)
Movement on segment change	4,027,653	118,176	–	4,145,829
Transfer to/(from) Stage 1	402,146,665	(373,017,891)	(29,128,774)	–
Transfer to/(from) Stage 2	(61,146,722)	64,599,609	(3,452,887)	–
Transfer to/(from) Stage 3	(10,980,676)	(6,480,932)	17,461,608	–
Write-offs	–	(4,476,807)	(73,849,446)	(78,326,253)
Foreign exchange adjustments	(12,827,513)	(3,033,808)	(950,081)	(16,811,402)
At 31 December 2023	**2,072,288,198**	**705,918,498**	**568,129,437**	**3,346,336,133**
ECL allowance as at 1 January 2023	**31,516,591**	**104,711,557**	**292,948,161**	**429,176,309**
New assets originated or purchased	31,557,019	–	–	31,557,019
Assets derecognised or repaid	(29,233,793)	(1,026,656)	1,078,499	(29,181,950)
Net movement on accrued interest	(315,829)	3,137,456	4,119,097	6,940,724
Transfer to/(from) Stage 1	21,296,491	(16,681,391)	(4,615,100)	–
Transfer to/(from) Stage 2	(2,115,175)	3,484,764	(1,369,589)	–
Transfer to/(from) Stage 3	(278,292)	(524,263)	802,555	–
Impact on ECL from stage transfer and input changes	(8,762,601)	8,090,161	2,205,340	1,532,900
Impact on ECL from segment changes	55,902	10,945	–	66,847
Write-offs	–	(4,476,807)	(73,849,446)	(78,326,253)
Foreign exchange adjustments	(685,827)	(489,399)	(912,355)	(2,087,581)
At 31 December 2023	**43,034,486**	**96,236,367**	**220,407,162**	**359,678,015**
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 on 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 transfer 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-offs	–	(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**

17. Loans and advances to customers (contd.)

Corporate loan (contd.)

Credit quality of gross carrying amounts as at 31 December 2023 and 2022:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2023				
Performing	2,072,288,198	314,163,553	–	2,386,451,751
Special mention	–	391,754,945	–	391,754,945
Substandard	–	–	132,326,310	132,326,310
Doubtful	–	–	123,447,377	123,447,377
Loss	–	–	312,355,750	312,355,750
Total	**2,072,288,198**	**705,918,498**	**568,129,437**	**3,346,336,133**
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**

SME loans

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount as at 1 January 2023	**354,463,706**	**20,071,784**	**45,631,888**	**420,167,378**
New assets originated or purchased	368,596,902	–	–	368,596,902
Assets derecognised or repaid	(170,908,911)	(2,821,350)	(9,881,347)	(183,611,608)
Net movement on accrued interest	(1,555,711)	155,604	27,165	(1,372,942)
Movement on segment change	(4,027,653)	(118,176)	–	(4,145,829)
Transfer to/(from) Stage 1	9,331,861	(8,857,971)	(473,890)	–
Transfer to/(from) Stage 2	(12,433,364)	12,888,288	(454,924)	–
Transfer to/(from) Stage 3	(4,751,975)	(1,010,462)	5,762,437	–
Write-offs	–	–	(14,247)	(14,247)
Foreign exchange adjustments	(10,074)	5,885	–	(4,189)
At 31 December 2023	**538,704,781**	**20,313,602**	**40,597,082**	**599,615,465**
ECL allowance as at 1 January 2023	**6,240,269**	**1,161,930**	**26,588,626**	**33,990,825**
New assets originated or purchased	5,312,242	–	–	5,312,242
Assets derecognised or repaid	(3,697,638)	(535,342)	(4,923,959)	(9,156,939)
Net movement on accrued interest	(77,365)	13,200	304,012	239,847
Transfer to/(from) Stage 1	746,073	(517,921)	(228,152)	–
Transfer to/(from) Stage 2	(435,641)	552,709	(117,068)	–
Transfer to/(from) Stage 3	(134,858)	(70,251)	205,109	–
Impact on ECL from stage transfer and input changes	(1,787,538)	844,377	6,809,946	5,866,785
Impact on ECL from segment changes	(55,902)	(10,945)	–	(66,847)
Write-offs	–	–	(14,247)	(14,247)
Foreign exchange adjustments	46	101	–	147
At 31 December 2023	**6,109,688**	**1,437,858**	**28,624,267**	**36,171,813**

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 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 on 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**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
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 transfer 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**

Credit quality of gross carrying amounts as at 31 December 2023 and 2022:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2023				
Performing	538,704,781	16,192,404	–	554,897,185
Special mention	–	4,121,198	–	4,121,198
Substandard	–	–	12,540,207	12,540,207
Doubtful	–	–	2,474,805	2,474,805
Loss	–	–	25,582,070	25,582,070
Total	**538,704,781**	**20,313,602**	**40,597,082**	**599,615,465**
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**

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 2023	**591,488,998**	**15,401,768**	**21,630,395**	**628,521,161**
New assets originated or purchased	913,846,138	–	–	913,846,138
Assets derecognised or repaid	(384,111,529)	(2,487,112)	(5,353,987)	(391,952,628)
Net movement on accrued interest	144,467	107,194	236,487	488,148
Transfer to/(from) Stage 1	6,133,846	(5,477,567)	(656,279)	–
Transfer to/(from) Stage 2	(10,998,286)	13,110,071	(2,111,785)	–
Transfer to/(from) Stage 3	(2,531,755)	(1,548,764)	4,080,519	–
Write-offs	–	–	(16,456)	(16,456)
Foreign exchange adjustments	(20,064)	(1,820)	(3,048)	(24,932)
At 31 December 2023	**1,113,951,815**	**19,103,770**	**17,805,846**	**1,150,861,431**
ECL allowance as at 1 January 2023	**2,648,028**	**761,536**	**14,108,128**	**17,517,692**
New assets originated or purchased	2,847,530	–	–	2,847,530
Assets derecognised or repaid	(2,030,201)	(110,358)	(3,272,874)	(5,413,433)
Net movement on accrued interest	(75,323)	(32,340)	378,053	270,390
Transfer to/(from) Stage 1	634,930	(294,591)	(340,339)	–
Transfer to/(from) Stage 2	(114,698)	1,117,402	(1,002,704)	–
Transfer to/(from) Stage 3	(31,493)	(107,687)	139,180	–
Impact on ECL from stage transfer and input changes	(969,942)	(541,186)	2,457,547	946,419
Write-offs	–	–	(16,456)	(16,456)
Foreign exchange adjustments	(9,975)	(2,407)	(2,196)	(14,578)
At 31 December 2023	**2,898,856**	**790,369**	**12,448,339**	**16,137,564**
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 transfer 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**

17. Loans and advances to customers (contd.)

Retail loan (contd.)

Credit quality of gross carrying amounts as at 31 December 2023 and 2022:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2023				
Performing	1,113,951,815	13,574,962	–	1,127,526,777
Special mention	–	5,528,808	–	5,528,808
Substandard	–	–	4,684,732	4,684,732
Doubtful	–	–	1,296,954	1,296,954
Loss	–	–	11,824,160	11,824,160
Total	**1,113,951,815**	**19,103,770**	**17,805,846**	**1,150,861,431**
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**

Impairment of loans receivables from Mongolian Copper Corporation LLC

As at the reporting date, the Bank has total outstanding loan receivable from Mongolian Copper Corporation LLC (“MCC”) of MNT 182.8 billion (2022: MNT 183.7 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 2023, the Bank has provided an allowance for expected credit losses for the loan receivable from MCC of MNT 28.3 billion (2022: MNT 25.8 billion).

18. Other assets

	2023 MNT’000	2022 MNT’000
Prepaid expenses and advances	29,855,704	24,500,292
Settlement receivables	29,370,837	17,526,442
Precious metals	24,703,649	84,657
Consumables and other office supplies	5,151,016	4,169,503
Deferred employee benefit	1,743,267	1,863,786
Prepayment made for construction	–	63,652,848
Other receivables	170,800,519	115,878,710
Less: Allowance for other receivables	(36,678,145)	(38,884,014)
	224,946,847	**188,792,224**
Foreclosed properties	306,207,932	277,158,336
Allowance for impairment	(21,916,317)	–
Foreclosed properties, net of impairment	**284,291,615**	**277,158,336**
Total other assets	**509,238,462**	**465,950,560**

Included in prepaid expenses and advances are guarantee deposits held for international card payment organisations amounting to MNT 12,773 million (2022: MNT 12,900 million).

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

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.

In 2022, prepayment made for construction represented advance payments made to Riverstone Properties LLC ("Riverstone") to construct the Bank's new office building which has been capitalised during the year according to the actual construction progress (see Note 21).

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 modification loss recognised with respect the receivables amount to MNT 8,311,181 thousand as of 31 December 2023 (2022: MNT 13,861,532 thousand) (See Note 7).

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

Impairment allowance	Other receivables MNT'000	Foreclosed properties MNT'000	Total MNT'000
2023			
As at 1 January	38,884,014	–	38,884,014
Charge for the year	8,287,286	21,916,317	30,203,603
Reversal	(10,008,715)		(10,008,715)
Net charge/(reversal) for the year (Note 8)	(1,721,429)	21,916,317	20,194,888
Write-off during the year	(484,440)	–	(484,440)
As at 31 December	**36,678,145**	**21,916,317**	**58,594,462**
2022			
At 1 January	45,846,848	–	45,846,848
Charge for the year	19,479,072	–	19,479,072
Reversal	(4,912,641)	–	(4,912,641)
Net charge/(reversal) for the year (Note 8)	14,566,431	–	14,566,431
Write off during the year	(21,529,265)	–	(21,529,265)
As at 31 December	**38,884,014**	**–**	**38,884,014**

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 32.

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2023				
Performing	52,792,595	587,308	–	53,379,903
Special mention	–	93,691,571	–	93,691,571
Substandard	–	–	10,548	10,548
Doubtful	–	–	4,213	4,213
Loss	–	–	23,714,284	23,714,284
Total	**52,792,595**	**94,278,879**	**23,729,045**	**170,800,519**
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**

19. Investment properties

	2023 MNT'000	2022 MNT'000
At 1 January	79,997,754	79,902,629
Disposal	(29,614,685)	–
Change in fair value (Note 7)	2,873,791	95,125
At 31 December	**53,256,860**	**79,997,754**

20. Assets held for sale

	2023 MNT'000	2022 MNT'000
Buildings and real estate	8,162,951	24,581,450
Vehicle	96,179	84,267
	8,259,130	**24,665,717**

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 MNT'000	Office equipment and vehicles MNT'000	Computers and others MNT'000	Construction -in-progress MNT'000	Total MNT'000
At 31 December 2023					
At cost/valuation					
At 1 January 2023	230,776,304	17,450,498	71,553,865	202,686,413	522,467,080
Additions	–	315,850	20,132,393	117,954,296	138,402,539
Disposals	(4,020,429)	(143,122)	(887,987)	–	(5,051,538)
Write-offs (Note 9)	–	(110,081)	(1,618,732)	–	(1,728,813)
Reclassification	–	661,868	(661,868)	–	–
Transfer to intangible assets	–	–	(22,840,587)	–	(22,840,587)
At 31 December 2023	226,755,875	18,175,013	65,677,084	320,640,709	631,248,681
Accumulated depreciation					
At 1 January 2023	5,467,103	9,800,889	36,573,945	–	51,841,937
Charge for the year (Note 9)	5,365,425	1,528,431	7,286,447	–	14,180,303
Disposals	(101,577)	(139,979)	(887,987)	–	(1,129,543)
Write-off (Note 9)	–	(106,464)	(1,512,135)	–	(1,618,599)
At 31 December 2023	10,730,951	11,082,877	41,460,270	–	63,274,098
Net carrying amount as at 31 December 2023	**216,024,924**	**7,092,136**	**24,216,814**	**320,640,709**	**567,974,583**

21. Property and equipment (contd.)

	Buildings and land MNT'000	Office equipment and vehicles MNT'000	Computers and others MNT'000	Construction -in-progress MNT'000	Total MNT'000
At 31 December 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	230,776,304	17,450,498	71,553,865	202,686,413	522,467,080
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	5,467,103	9,800,889	36,573,945	–	51,841,937
Net carrying amount as at 31 December 2022	**225,309,201**	**7,649,609**	**34,979,920**	**202,686,413**	**470,625,143**

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 31). 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 2023, the carrying amount of land and buildings would have been MNT 138,526 million (2022: MNT 141,827 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 33.

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 MNT'000	Lease liabilities MNT'000
As at 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 and 1 January 2023	**15,449,135**	**(15,869,783)**
Additions	2,937,257	(2,562,951)
Lease modification	2,020,078	(2,020,078)
Termination of lease	(384,089)	402,054
Depreciation charge for the year (Note 9)	(6,782,507)	–
Accretion of interest (Note 5)	–	(2,050,311)
Lease payments	–	8,230,591
As at 31 December 2023	**13,239,874**	**(13,870,478)**

The Bank recognised rent expense from short-term leases of MNT 779,986 thousand for the year ended 31 December 2023 (2022: MNT 537,899 thousand). Also included within Utility expenses of Operating expenses are variable lease payments that do not depend on an index or rate of MNT 1,372,004 thousand for the year ended 31 December 2023 (2022: MNT 417,286 thousand). The maturity analysis of lease liabilities are disclosed in Note 35.

23. Intangible assets

	2023 MNT'000	2022 MNT'000
At cost		
At 1 January	16,153,277	16,810,552
Additions	24,808,663	732,935
Write-offs (Note 9)	(6,006)	(1,390,210)
At 31 December	40,955,934	16,153,277
Accumulated amortisation		
At 1 January	14,731,916	14,476,139
Charge for the year (Note 9)	920,110	1,644,302
Write-offs (Note 9)	(4,197)	(1,388,525)
At 31 December	15,647,829	14,731,916
Net carrying amount	**25,308,105**	**1,421,361**

In 2023, the Bank capitalized its new core system "Temenos" of MNT 24,050 million which was not brought into actual use as of 31 December 2023.

24. Due to banks and other financial institutions

	2023 MNT'000	2022 MNT'000
Current accounts from banks and financial institutions	23,869,685	32,154,080
Time deposits from banks and financial institutions	294,542,326	966,154
	318,412,011	**33,120,234**

At 31 December 2023, time deposits included deposit from local banks denominated in MNT and USD with interest rate of 4-12.00% per annum and original maturity from 3 months (2022: time deposits with interest rate of 11.00% per annum on MNT and original maturity from 3 months).

25. Repurchase agreements

	2023 MNT'000	2022 MNT'000
Asset backed securities program	51,285,052	316,804,791

The Bank entered into long-term reverse repurchase agreement with BoM, whereas as of 31 December 2023 the Bank sold unquoted BoM bills amounting MNT 46 billion in total (2022: MNT 308 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.

26. Due to customers

	2023 MNT'000	2022 MNT'000
Government deposits		
- Current accounts	1,523,591,116	200,593,243
- Time deposits	237,000,800	149,942,889
- Guarantee and LC fund	12,425,170	12,577,697
Private sector deposits		
- Current accounts	2,203,683,611	1,689,010,924
- Time deposits	825,152,216	424,943,942
- Guarantee and LC fund	41,639,920	37,019,564
- Other	2,268,947	1,014,659
Individual deposits		
- Time deposits	3,137,438,603	2,702,594,819
- Current accounts	598,304,524	546,925,896
- Demand deposits	504,902,567	441,745,295
- Other	409,938	940,477
	9,086,817,412	**6,207,309,405**

27. Borrowed funds

	2023 MNT'000	2022 MNT'000
Borrowed funds from foreign banks and financial institutions		
International Bank for Economic Co-operation	96,462,147	34,452,229
Cargill International Trading Pte Ltd	73,213,903	76,846,806
International Investment Bank	53,027,104	53,027,218
China Development Bank	49,995,866	58,912,615
Exim Bank of Russia	34,219,794	46,497,004
Crown Agents Bank	31,843,486	–
Atlantic Forfaitierungs AG	21,717,365	10,091,983
Asian Development Bank	20,213,797	22,194,269
Huishang Bank	17,306,108	31,190,651
Japan International Cooperation Agency	15,755,391	14,754,155
Sumitomo Mitsui Banking Corporation	14,224,611	6,691,150
Industrial and Commercial Bank of China Limited	12,286,676	–
Erste Group Bank AG	12,040,023	5,459,048
Commerzbank AG	4,966,402	176,150,962
China Trade Solutions	1,275,202	980,810
International Development Association	1,081,888	1,175,667
Crowdcredit Estonia OU	955,460	1,564,481
Kreditanstalt fuer Wiederaufbau	797,728	1,545,300
Deutsche Zentral-Genossenschaftsbank	527,455	469,301
World Bank	83,796	153,960
VTB Bank Russia	–	241,357,148
Cargill financial services international, INC	–	86,300,410
Bunge Asia Pte Ltd	–	28,798,867
Liger Holding International Co.Ltd	–	14,247,696
Credit Bank of Moscow	–	11,347,971
Fintertech Co., Ltd	–	3,991,596
Intesa Sanpaolo SPA	–	3,144,687
Oddo BHF AG	–	386,853
The Export-Import Bank of Republic of China	–	272,746
Borrowed funds from government organizations		
Mortgage Financing Programme by BoM and the Ministry of Finance	187,069,081	270,355,583
Bank of Mongolia - Petroleum project	219,420,737	212,351,132
Employment support programme	3,336,598	3,300,000
Ministry of Finance	847,159	817,247
Education loan fund	–	1,650
	872,667,777	**1,418,831,195**

Borrowings are all unsecured except for the funds obtained from China Development Bank with outstanding balance of CNY 37.3 million (2022: CNY 43.9 million) and USD 8.9 million (2022: USD 10.5 million). The funds obtained from China Development Bank is secured by a cash deposit amounting to USD 1 million (MNT 3.6 billion) included within the placement with foreign bank as cash collateral (Note 13). The funds obtained from Commerzbank AG with outstanding balance of USD 50 million, was secured by a cash deposit which was fully settled in July of 2023.

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 36).

28. Other liabilities

	2023 MNT'000	**2022 MNT'000**
Delay on clearing settlement	115,757,845	70,634,681
Payables to third parties	31,601,877	8,354,609
Provision on off-balance sheet commitments (Note 31)	8,057,538	4,941,386
Taxes payable other than income tax	5,674,019	8,251,077
Deferred revenue and income	4,625,493	5,208,858
Contract liability (unearned fees and commission)	3,284,475	2,735,890
Deferred grant	795,459	385,873
Finance lease payable (computer lease)	14,226	85,271
Liabilities for loans sold to MIK with recourse (Note 17)	–	158,847,086
Others	2,923,964	1,038,854
	172,734,896	**260,483,585**

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 in 2022 and as at 31 December 2023 the outstanding balance of the grant was USD 53,270 (2022: USD 122,023).

In 2023, the Bank entered into a grant support agreement in support of the Green Climate Fund (GCF) Readiness and Preparatory Support Program: "Supporting Green Regional Development in Mongolia" with United Nations Office for Project Services ("UNOPS") on 12 October 2023. As part of the Readiness Support programme, the project of USD 200,860 was approved to target Khanbogd (KB) soum in southern Mongolia within Umnugobi province. KB soum is projected to witness a significant in-migration due to extreme weather events due to climate change and expanding mining. The implementation period of this grant is for 1 year. The Bank received the first tranche of the grant in an amount of USD 180,000 upon signing the agreement as of 31 December 2023. The total amortisation for the year amounted to MNT 203,242 thousand (2022: MNT 232,737 (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.

29. Share capital, Share premium and Other reserves

Share capital and share premium

	Number of ordinary shares		Share capital		Share premium	
	2023	2022	2023 MNT'000	2022 MNT'000	2023 MNT'000	2022 MNT'000
At 1 January	48,070,880	48,070,820	323,810,329	323,809,925	664	–
Issued during the year	2,530,047	60	17,042,650	404	64,069,041	664
Transfer	–	–	(74)	–	74	–
At 31 December	**50,600,927**	**48,070,880**	**340,852,905**	**323,810,329**	**64,069,779**	**664**

On 11 January 2023, the shareholders of the Bank approved to split 4,807,088 ordinary shares with nominal value of MNT 67,361.01 into 48,070,880 shares with nominal value of MNT 6,736.10, with no impact on the total value of ordinary shares.

As of 31 December 2023, the Bank had 55,000,000 shares authorized for issue from which total of 50,600,927 shares were issued. All issued shares were fully paid.

The share split has been reflected in the above table and adjusted in the calculation of earnings per share for all periods presented.

On 12 May 2023, the Bank was listed on MSE. As part of initial public offering (IPO) the Bank issued 2,530,047 additional new shares at subscription price of MNT 33,000 per share, resulting in total net cash proceed of MNT 81,611,691 thousand after netting off transaction cost related to the IPO. Thereby, share capital was increased by MNT 17,042,650 thousand and share premium by MNT 64,069,041 thousand respectively.

The shareholders of the Bank as of 31 December 2023 and 2022 and percentage of ownership are as follows:

	2023	2022
Globull Investment and Development PTE Ltd	60.80%	64.00%
TDB Capital LLC	29.69%	31.25%
GS Mongolia Investment Limited (Goldman Sachs)	3.12%	3.28%
Public shareholders	6.39%	1.47%
	100.00%	**100.00%**

Dividend

On 27 April 2023, the Bank declared a dividend of MNT 59,992,458 thousand to its shareholders in proportion to their ownership. The BoM had approved the dividend disbursement on 3 August 2023. As of 31 December 2023, MNT 2,367,380 thousand of dividend has not yet been paid out and is included within other liabilities.

In January 2021, the Parliament of Mongolia enacted Amendments to the Banking Law, one of the amendment was for all domestic systemically important banks to reduce their maximum single ownership concentration to 20% by 31 December 2023. Fulfilling the maximum single ownership concentration criteria has been challenging and in response to this, BoM has established a working group and submitted a draft law to the GoM proposing for an extension of the specified deadline until the end of 2026. Later, the same draft was submitted to the Parliament by a member of parliament. It is expected that the amendments to the law will be discussed during the upcoming parliamentary spring session. In the event of non-compliance, BoM can impose various actions and sanctions which include limiting the shareholder's certain rights to 20%.

Management is of the view that the parliament will pass the extension and that the technical breach does not have any material impact to the Bank as at 31 December 2023.

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

Other reserves

	Asset revaluation reserve MNT'000	FVOCI revaluation reserve MNT'000	Regulatory reserve MNT'000	Total MNT'000
At 1 January 2023	145,651,452	3,005,413	110,252,115	258,908,980
Net gain on FVOCI instruments	–	35,639,183	–	35,639,183
Deferred tax liability (Note 10.3)	–	(3,563,918)	–	(3,563,918)
Transfer of revaluation reserve due to disposal	(2,172,039)	–	–	(2,172,039)
Net changes in allowance for ECL on debt instruments at FVOCI	–	334,357	–	334,357
Movement on regulatory reserve	–	–	24,526,613	24,526,613
At 31 December 2023	**143,479,413**	**35,415,035**	**134,778,728**	**313,673,176**
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**

Regulatory reserve represents additional provision required under BoM provisioning guidelines that is in addition to IFRS requirements.

30. 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.

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

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 2023 or 2022.

30. Segment reporting (contd.)

At 31 December 2023

	Corporate Banking MNT'000	SME Banking MNT'000	Retail Banking MNT'000	International Banking MNT'000	Other MNT'000	Total MNT'000
Segment results						
External revenue						
Interest income	282,741,360	74,395,401	139,039,750	–	268,535,888	764,712,399
Interest expense	(111,191,503)	(35,372,318)	(266,434,935)	(42,648,072)	(13,401,612)	(469,048,440)
Fee and commission income	36,942,324	20,289,902	24,604,037	215,356	12,467,021	94,518,640
Fee and commission expenses	(2,261)	–	–	–	(33,156,790)	(33,159,051)
Trading and other operating income/(expense), net	(13,829,991)	2,255,837	979,817	–	65,284,825	54,690,488
Intersegment revenue/(expense)	(142,088,083)	2,292,186	207,598,120	49,966,660	(117,768,883)	–
Total segment revenue/(expense)	52,571,846	63,861,008	105,786,789	7,533,944	181,960,449	411,714,036
Operating expense	13,767,489	4,057,485	9,793,448	3,065,786	153,076,138	183,760,346
Share of profit of an associate	–	–	–	–	4,271,538	4,271,538
Credit loss expense on financial assets	24,169,806	4,375,414	1,503,397	–	5,370,430	35,419,047
Profit/(loss) before tax	14,634,551	55,428,109	94,489,944	4,468,158	27,785,419	196,806,181
Income tax expense	–	–	–	–	45,587,714	45,587,714
Net profit/(loss) for the year	**14,634,551**	**55,428,109**	**94,489,944**	**4,468,158**	**(17,802,295)**	**151,218,467**
Segment assets	**3,314,253,597**	**573,122,136**	**1,336,492,445**	**206,360**	**6,942,502,007**	**12,166,576,545**
Segment liabilities	**4,095,233,216**	**1,169,744,290**	**4,135,160,702**	**447,828,712**	**910,230,730**	**10,758,197,650**
Depreciation and amortisation	48,382	35,664	6,826,928	41,070	14,930,876	21,882,920
Capital expenditure*	–	–	–	–	76,717,767	76,717,767

30. Segment reporting (contd.)

At 31 December 2022

	Corporate Banking MNT'000	**SME Banking MNT'000**	**Retail Banking MNT'000**	**International Banking MNT'000**	**Other MNT'000**	**Total MNT'000**
Segment results						
External revenue						
Interest income	304,387,400	56,261,659	103,970,776	–	209,458,217	674,078,052
Interest expense	(88,200,886)	(15,415,103)	(181,398,267)	(42,973,852)	(26,490,008)	(354,478,116)
Fee and commission income	20,408,452	16,569,869	21,438,904	237,071	19,306,979	77,961,275
Fee and commission expenses	(1,906)	–	–	–	(27,510,767)	(27,512,673)
Trading and other operating income/(expense), net	(28,156,169)	2,608,559	(4,780,723)	231,257	44,022,001	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	167,407,048	383,973,463
Operating expense	8,665,149	3,176,080	7,043,423	3,557,898	150,348,341	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)	–	27,633,484	(28,297,839)
Profit/(loss) before tax	107,060,852	68,243,040	68,130,732	6,620,564	(10,156,389)	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**	**(263,026,111)**	**194,248,693**
Segment assets	**3,151,006,341**					**9,654,777,702**
		415,621,165	**899,853,374**	**31,326**	**5,188,265,496**	
Segment liabilities	**2,262,065,368**		**3,762,806,775**			**8,476,766,438**
		874,190,809		**914,642,725**	**663,060,761**	
Depreciation and amortisation	45,592	24,604	28,923	21,752	20,051,154	20,172,025
Capital expenditure*	–	–	–	–	20,964,630	20,964,630

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

31. 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 32).

	2023 MNT'000	2022 MNT'000
Uncovered Guarantees and Letters of credit	522,557,915	321,497,517
Undrawn credit lines	455,919,038	248,247,384
	978,476,953	**569,744,901**

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 2023	**2,566,608**	**2,374,778**	**4,941,386**
New exposures	3,402,151	1,041,703	4,443,854
Exposures derecognised or matured/lapsed	(798,247)	(529,455)	(1,327,702)
Net charge/(reversal) for the year (Note 8)	2,603,904	512,248	3,116,152
At 31 December 2023	**5,170,512**	**2,887,026**	**8,057,538**
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)
At 31 December 2022	**2,566,608**	**2,374,778**	**4,941,386**

An analysis of changes in the outstanding exposures and the corresponding ECL allowance as at 31 December 2023 and 31 December 2022 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 2023	**308,769,629**	**11,809,226**	**918,662**	**321,497,517**
New exposures	410,728,582	12,852,753	2,862	423,584,197
Exposures derecognised or matured/lapsed	(215,119,125)	(7,577,386)	172,712	(222,523,799)
Transfer to/(from) Stage 1	(342,513)	342,513	–	–
At 31 December 2023	**504,036,573**	**17,427,106**	**1,094,236**	**522,557,915**
ECL allowance as at 1 January 2023	**3,522,506**	**(955,898)**	**–**	**2,566,608**
New exposures	3,373,050	28,421	680	3,402,151
Exposures derecognised or matured/lapsed	(2,311,797)	970,177	543,373	(798,247)
Transfer to/(from) Stage 1	(1,072)	1,072	–	–
At 31 December 2023	**4,582,687**	**43,772**	**544,053**	**5,170,512**

31. 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 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	–	–
At 31 December 2022	**308,769,629**	**11,809,226**	**918,662**	**321,497,517**
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	(5,282)	5,282	–	–
At 31 December 2022	**3,522,506**	**(955,898)**	**–**	**2,566,608**

Credit quality of gross carrying amounts as at 31 December 2023 and 2022:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2023				
Performing	504,036,573	–	–	**504,036,573**
Special mention	–	17,427,106	–	**17,427,106**
Substandard	–	–	1,094,236	**1,094,236**
Total	**504,036,573**	**17,427,106**	**1,094,236**	**522,557,915**
At 31 December 2022				
Performing	308,769,629	–	–	**308,769,629**
Special mention	–	11,809,226	–	**11,809,226**
Substandard	–	–	918,662	**918,662**
Total	**308,769,629**	**11,809,226**	**918,662**	**321,497,517**

31. 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 2023	**243,344,806**	**4,817,058**	**85,520**	**248,247,384**
New exposures	152,870,544	246,533	61,784	153,178,861
Exposures derecognised or matured/lapsed	58,271,675	(3,730,459)	(48,423)	54,492,793
Transfer to/(from) Stage 1	(8,512)	–	8,512	–
At 31 December 2023	**454,478,513**	**1,333,132**	**107,393**	**455,919,038**
ECL allowance as at 1 January 2023	**2,340,987**	**33,782**	**9**	**2,374,778**
New exposures	1,038,060	3,643	–	1,041,703
Exposures derecognised or matured/lapsed	(549,668)	16,145	4,068	(529,455)
Transfer to/(from) Stage 1	–	–	–	–
At 31 December 2023	**2,829,379**	**53,570**	**4,077**	**2,887,026**
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**

31. Contingent liabilities and commitments (contd.)

Undrawn credit balances (contd.)

Credit quality of gross carrying amounts as at 31 December 2023 and 2022:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
At 31 December 2023				
Performing	454,478,513	–	–	**454,478,513**
Special mention	–	1,333,132	–	**1,333,132**
Substandard	–	–	107,393	**107,393**
Total	**454,478,513**	**1,333,132**	**107,393**	**455,919,038**
At 31 December 2022				
Performing	243,344,806	–	–	**243,344,806**
Special mention	–	4,817,058	–	**4,817,058**
Substandard	–	–	85,520	**85,520**
Total	**243,344,806**	**4,817,058**	**85,520**	**248,247,384**

As of 31 December 2023, the Bank had capital commitments for construction in progress of USD 74 million (2022: USD 89 million) (Note 21) and other contractual commitments of MNT 3,100 million (2022: MNT 1,030 million).

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 2023 and 2022, 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.

31. 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.

32. 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, liquidity risks and supporting risk management activities in general. 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.

Board of Directors

The Board of Directors (“BoD”) is responsible for establishing sound management framework and approving the risk management policies and the Bank’s risk appetite in general.

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 reviewing the efficiency of the risk management framework. 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 efficiency 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 assets and liabilities management of the funding, liquidity, foreign currency exposure, maturity mismatch 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.

Risk Management Committee (“RMC”)

The Risk Management Committee is responsible for approving risk management policy, Risk appetite, ICAAP, ILAAP and other risk management tools within the framework of its main purpose, monitor their implementation, and make suggestions and recommendations for changes if necessary.

32. 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 100 million up to MNT 300 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 estimated based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment.

One of the key tools to monitoring and controlling risks is internal risk appetite limits. The Bank determines its risk appetite for its operations by taking into account various factors such as the laws of Mongolia, prudential criteria approved by the Bank of Mongolia, procedures for monitoring them, international recommendations for risk management issued by the Basel Committee, as well as the Bank's own risk management policy. All of these factors serve as a guide for the Bank to establish its risk appetite.

With the risk appetite established, the Bank determines the level of risk it will accept in a given year to achieve its strategic and medium-term goals while considering the main risks that may hinder the successful implementation of the Bank's strategic objectives.

Reports compiled from all the bank units are examined and processed in order to analyse, control and identify early risks. The findings are presented to the BOD, RGB, ALCO, RMC and Credit Committees, and the head of each business departments. 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.

Risk mitigation

As a part of its risk management, the Bank uses scenario analysis to measure and analyse exposures resulting from changes in interest rates, foreign currencies, credit risks, and estimate potential exposures. The Bank mitigate its credit risks through collaterals and personal guarantees.

Concentration risk

The high concentration of loans granted to bank customers in one economic sector, a small number of borrowers, and certain products and services increases the credit risk. Therefore, the Bank adheres to the limits of credit concentration established by BoM in its daily operations, determines the optimal structure of the loan portfolio, and adheres to the policy and strategy of diversifying the over-concentrated structure.

In order to mitigate concentration risk, the Bank's policies and procedures include specific guidelines to focus on maintaining well-diversified portfolio.

To ensure a harmonized approach to managing credit concentration risks and the Bank's risk-bearing capacity, the regulatory body establishes limits in accordance with the 'Procedures for Establishing and Monitoring the Appropriateness of the Bank's Operations.'

- Loans granted to a single borrower and other assets classified as loans shall not exceed 20% of the equity of the Bank.
- Loans to single related party shall not exceed 5% of equity, and loans to all related parties shall not exceed 20% of equity.

32. 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.

32. 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 Credit Underwriting Department ("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.

32. 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

32. 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: 15% for Good and Bad, and 70% for Base scenario.

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

	Corporate loans	SME loans	Retail loans
31 December 2023			
Bad case	2.2921	2.2921	1.7680
Base case	0.7850	0.7850	0.5053
Good case	0.4222	0.4222	0.2669
31 December 2022			
Bad case	2.1048	2.1048	1.6981
Base case	1.3574	1.3574	1.1363
Good case	0.4406	0.4406	0.4922

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 2023 and 2022, as follow:

	2023 MNT'000	2022 MNT'000
Restructured loans		
Gross carrying amount	52,614,502	56,806,027
Corresponding ECL	(33,749,533)	(21,933,646)

32. 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			
	2023 MNT'000	%	2022 MNT'000	%
Trading	939,847,708	18%	989,179,347	21%
Mining and quarrying	594,847,744	11%	618,573,404	13%
Construction	376,491,765	7%	473,147,282	10%
Financial service	377,195,935	7%	355,983,175	8%
Manufacturing	586,842,868	11%	523,074,747	11%
Mortgage loan	609,560,516	11%	515,069,970	11%
Card loan	528,421,873	10%	278,200,090	6%
Hotel, restaurant and tourism	135,283,643	3%	151,931,463	3%
Transportation and communication	259,503,316	5%	168,262,695	4%
Import and trade of fuel	215,092,310	4%	–	0%
Deposit collateralized loan	118,298,002	2%	100,641,414	2%
Health	37,971,252	1%	30,018,101	1%
Education	72,855,274	1%	58,040,193	1%
Electricity and thermal energy	11,654,177	0%	19,875,704	0%
Agriculture	71,627,403	1%	23,345,917	1%
Other	409,950,828	8%	312,523,722	7%
	5,345,444,614	**100%**	**4,617,867,224**	**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.

32. 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:

	Gross carrying amount MNT'000	Fair value of collaterals MNT'000	Coverage %
31 December 2023			
Corporate	3,346,336,133	8,664,934,415	259%
SME	599,615,465	1,648,591,251	275%
Retail	1,150,861,431	1,817,582,235	158%
	5,096,813,029	**12,131,107,901**	
31 December 2022			
Corporate	3,238,302,119	8,967,114,590	259%
SME	420,167,378	1,224,305,300	275%
Retail	628,521,161	1,404,319,468	158%
	4,286,990,658	**11,595,739,358**	

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. There were no such breaches as at 31 December 2023.

(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:

	2023	2022
At 31 December	49.7%	43.4%

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 2023 and 2022 based on contractual undiscounted repayment obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

32. Risk management (contd.)

(3) Liquidity risk (contd.)

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

At 31 December 2023	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	1,117,858,549	1,193,856,976	–	–	–	–	2,311,715,525
Due from other banks and financial institutions	869,544,915	783,230,812	–	–	–	–	1,652,775,727
Financial investments	–	1,224,738,338	247,269,570	107,443,178	186,940,736	956,661,854	2,723,053,676
Gross settled swaps:							
- Inflows	–	39,750,576	3,646,159	4,473,604	11,755,341	–	59,625,680
- Outflows	–	(40,440,564)	(6,363,445)	(7,121,919)	(22,983,257)	–	(76,909,185)
Loans and advances to customers	554,076,511	802,131,637	615,471,775	1,415,886,826	2,876,815,855	1,877,285,064	8,141,667,668
Other financial assets	30,996,818	27,724,891	13,496,593	49,488,420	268,656,334	–	390,363,056
	2,572,476,793	4,030,992,666	873,520,652	1,570,170,109	3,321,185,009	2,833,946,918	15,202,292,147
Financial liabilities							
Due to banks and other financial institutions	23,863,949	294,709,383	–	–	–	–	318,573,332
Repurchase agreements	–	–	–	35,363,068	19,680,137	–	55,043,205
Due to customers	4,962,670,005	1,308,989,787	836,125,118	1,628,943,151	573,473,246	18,825,467	9,329,026,774
Gross settled swaps:							
- Inflows	–	41,396,162	3,087,757	2,583,633	8,858,627	–	55,926,179
- Outflows	–	(46,489,388)	(4,861,811)	(4,400,466)	(16,465,645)	–	(72,217,310)
Borrowed funds	–	159,310,715	83,352,194	536,071,195	131,063,322	25,411,246	935,208,672
Lease liabilities	–	2,089,904	1,979,903	3,841,872	7,888,740	–	15,800,419
Other financial liabilities	–	166,628,192	–	–	5,558,789	547,914	172,734,895
Uncovered Guarantees and Letters of credit	522,557,915	–	–	–	–	–	522,557,915
Undrawn credit lines	455,919,038	–	–	–	–	–	455,919,038
	5,965,010,907	1,926,634,755	919,683,161	2,202,402,453	730,057,216	44,784,627	11,788,573,119
	(3,392,534,114)	2,104,357,911	(46,162,509)	(632,232,344)	2,591,127,793	2,789,162,291	3,413,719,028

32. 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
	2,145,158,733	2,270,747,073	810,052,752	1,758,337,737	2,343,695,906	1,799,491,046	11,127,483,247
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
	3,674,118,234	1,380,330,528	810,621,899	2,076,557,324	914,590,030	93,432,534	8,949,650,548
	(1,528,959,501)	890,416,545	(569,147)	(318,219,587)	1,429,105,876	1,706,058,513	2,177,832,699

32. 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 2023					
Currency					
USD	+/- 100	+/- 789,541	+/- 328,411,715	+/- 710,587	+/- 328,411,715
MNT	+/- 100	+/- 8,001,304	+/- 328,411,715	+/- 7,201,174	+/- 328,411,715
OTHER	+/- 100	+/- 1,367,075	+/- 328,411,715	+/- 1,230,368	+/- 328,411,715
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

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.

32. 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	
	2023 MNT'000	2022 MNT'000
31 December	(58,141)	(249,173)
Average Daily	(792,656)	(1,080,401)
Highest	(24,615)	(2,842,583)
Lowest	(3,185,897)	(152,528)

The table below summarizes the Bank's exposure to foreign exchange risk as at 31 December 2023 and 2022. Included in the table are the Bank's financial assets and liabilities at carrying amounts:

	2023 MNT denominated MNT'000	2023 Foreign currencies MNT'000	2023 Total MNT'000	2022 MNT denominated MNT'000	2022 Foreign currencies MNT'000	2022 Total MNT'000
Financial assets						
Cash and balances with Bank of Mongolia	560,676,633	1,748,053,513	2,308,730,146	254,823,322	1,501,383,972	1,756,207,294
Due from other banks and financial institutions	224,175,940	1,427,622,435	1,651,798,375	–	767,067,640	767,067,640
Financial investments	1,770,718,631	147,210,357	1,917,928,988	1,539,613,538	130,298,046	1,669,911,584
Derivative financial instruments	172,188,577	–	172,188,577	265,374,431	–	265,374,431
Loans and advances to customers	3,881,801,871	1,051,655,351	4,933,457,222	3,268,342,745	868,839,653	4,137,182,398
Other financial assets	156,904,267	19,361,978	176,266,245	89,000,307	18,420,858	107,421,165
	6,766,465,919	4,393,903,634	11,160,369,553	5,417,154,343	3,286,010,169	8,703,164,512
Financial liabilities						
Due to banks and other financial institutions	71,414,293	246,997,718	318,412,011	3,241,357	29,878,877	33,120,234
Repurchase agreements	51,285,052	–	51,285,052	316,804,791	–	316,804,791
Due to customers	5,026,726,104	4,060,091,308	9,086,817,412	3,162,766,558	3,044,542,847	6,207,309,405
Derivative financial instruments	159,109,749	–	159,109,749	166,203,537	–	166,203,537
Borrowed funds	521,393,763	351,274,014	872,667,777	526,637,791	892,193,404	1,418,831,195
Debt securities issued	–	–	–	–	–	–
Lease liabilities	13,870,478	–	13,870,478	15,869,783	–	15,869,783
Other financial liabilities	106,936,691	43,361,221	150,297,912	213,208,170	20,896,217	238,960,501
	5,950,736,130	4,701,724,261	10,652,460,391	4,409,588,101	3,987,511,345	8,397,099,446
Off-balance foreign currency exposure, net		160,301,851			616,786,705	
Net foreign currency exposure		(147,518,776)			(84,714,471)	

32. 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 2023			
Currency			
USD	+/- 10%	+/- 6,442,978	+/- 230,000,000
OTHER	+/- 10%	+/-255,377	+/- 230,000,000
At 31 December 2022			
Currency			
USD	+/- 10%	+/- 7,875,319	+/- 230,000,000
OTHER	+/- 10%	+/- 352,184	+/- 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 152,942,480 thousand (2022: MNT 134,815,610 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.

33. 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.

33. 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 2023	**Level 1 MNT'000**	**Level 2 MNT'000**	**Level 3 MNT'000**	**Total MNT'000**
Financial assets				
Debt instruments measured at FVOCI				
Quoted government bonds	105,989,124	–	–	105,989,124
Unquoted BoM treasury bills	–	1,363,375,430	–	1,363,375,430
MIK USD bond	41,170,073	–	–	41,170,073
Equity instruments measured at FVOCI				
Unquoted equities	–	–	3,168,023	3,168,023
Quoted equities	38,804,358	–	–	38,804,358
Equity instruments measured at FVTPL				
Unquoted equities	–	–	1,700,000	1,700,000
Financial assets at FVTPL				
Residential mortgage-backed securities	–	–	360,010,446	360,010,446
Loan backed securities - Junior tranche	–	–	2,399,558	2,399,558
Loans and advances to customers at FVTPL	–	248,631,585	–	248,631,585
Derivative financial instruments	–	172,188,577	–	172,188,577
Non-financial assets				
Revalued properties	–	–	216,024,924	216,024,924
Investment properties	–	–	53,256,860	53,256,860
	185,963,555	**1,784,195,592**	**636,559,811**	**2,606,718,958**
Financial liabilities				
Derivative financial instruments	–	159,109,749	–	159,109,749
	–	**159,109,749**	**–**	**159,109,749**

At 31 December 2022	**Level 1 MNT'000**	**Level 2 MNT'000**	**Level 3 MNT'000**	**Total MNT'000**
Financial assets				
Debt instruments measured at FVOCI				
Quoted government bonds	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
Equity instruments measured at FVOCI				
Unquoted equities	–	–	3,168,532	3,168,532
Quoted equities	70,359,946	–	–	70,359,946
Financial assets at FVTPL				
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**

33. Fair value disclosures (contd.)

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.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2023 and 2022:

	Fair value 2023 MNT'000	2022 MNT'000	Valuation technique	Inputs
Financial assets				
Unquoted BoM treasury bills	1,363,375,430	949,566,385	Market value approach	Central bank policy and repo rates
Loans and advances to customers at FVTPL	248,631,585	330,876,566	Discounted Cash Flow approach	Future cash flows, PD, LGD and market interest rate of instruments
Derivative financial instruments	172,188,577	265,374,431	Market value	Libor and SOFR rate, repo rate, government bond yield, exchange rate, commodity forward price, USD discount rate, PD
Financial liabilities				
Derivative financial instruments	159,109,749	166,203,537	Market value	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 2023 and 2022.

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 2023	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	360,010,446	+/- 1%	+/- 3,600,104	Discounted Cash Flow method	Market interest rates	7.0% - 9.0%
Loan backed securities - Junior tranche	2,399,558	+/- 1%	+/- 23,996	Discounted Cash Flow method	Market interest rates	9.5%
Unquoted equities	4,868,023	+/- 10%	+/- 486,802	Net assets value	Market share price, Transaction price	MNT 1,000 - MNT 5,691,675
Non-financial assets						
Revalued properties	216,024,924	+/- 10%	+/- 21,602,492	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	53,256,860	+/- 10%	+/- 5,325,686	Market proxy	Equivalent property prices/Market proxy with appropriate adjustments for location, condition, and similar factors	MNT 8.0 million- 9 million per sq.meters

33. Fair value disclosures (contd.)

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

There were no changes in valuation techniques during the year ended 31 December 2023 and 2022. Management believes that the fair value of financial assets is unlikely to be materially different from their carrying value as of 31 December 2023.

Movements in fair value measurements within Level 3 during the year

	2023 MNT'000	2022 MNT'000
Residential mortgage-backed securities		
At 1 January	260,184,968	199,870,221
Addition	279,302,268	191,776,200
Sold	(182,110,768)	(147,530,300)
Interest accrued	31,223,300	19,265,652
Interest received	(28,589,322)	(3,196,805)
At 31 December	**360,010,446**	**260,184,968**
Loan backed securities - Junior tranche		
At 1 January	5,832,160	–
Addition	700,500	5,746,900
Paid	(4,136,100)	–
Interest accrued	515,301	278,965
Interest received	(512,303)	(193,705)
At 31 December	**2,399,558**	**5,832,160**
Unquoted equity		
At 1 January	3,168,532	3,395,537
Disposal	(509)	(227,005)
At 31 December	**3,168,023**	**3,168,532**

33. Fair value disclosures (contd.)

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

	2023 MNT'000	2022 MNT'000
Revalued properties		
At 1 January	225,309,201	246,797,379
Addition	–	–
Transfer	–	–
Disposal	(3,918,852)	(8,829,494)
Depreciation charged in profit or loss	(5,365,425)	(5,623,684)
Write-off	–	(7,035,000)
Revaluation	–	–
At 31 December	**216,024,924**	**225,309,201**
Investment properties		
At 1 January	79,997,754	79,902,629
Disposal	(29,614,686)	–
Transfer	–	–
Revaluation	2,873,792	95,125
At 31 December	**53,256,860**	**79,997,754**

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.

33. Fair value disclosures (contd.)

Fixed rate financial instruments (contd.)

As at 31 December 2023	Carrying amount MNT'000	Fair value MNT'000
Financial assets		
Loans and advances to customers	4,933,457,222	4,937,767,391
Debt instruments at amortised cost	1,311,976	1,327,492
Financial liabilities		
Due to customers	9,086,817,412	9,507,939,129
As at 31 December 2022		
Financial assets		
Loans and advances to customers	4,137,182,398	4,195,665,298
Investment securities held to maturity	250,553,216	252,759,224
Financial liabilities		
Due to customers	6,207,309,405	6,226,909,035

34. 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
- Supreme 17 LLC – The company is owner of MNREC LLC in which Bank holds 10% ownership.
- Mongolian National Rare Earth Corporation LLC ("MNREC") - The Bank owns 10% equity shares.
- 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.

34. Related party disclosures (contd.)

Significant transactions and balances with related parties as of 31 December 2023 and 2022 and for the years then ended were as follows:

At 31 December 2023	TDB Capital LLC	Globull	US Global nvestment LLC	JCDecaux LLC	MIK	TDB Securities LLC	TDB Leasing LLC	NNC LLC	NNC 'ublishing LLC	CNB Consulting LLC	Absolute Manage ment LLC	MNREC	Mongol General Leasing LLC	Times Media 'orporation LLC	Valiant Art LLC	TDB Asset Managemen t SC LLC	Supreme 17 LLC	Beneficial owner and its immediate family	Key Managemen t 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	MNT'000
Balances																			
Deposit and accrued interest	62,403	354	309	4,270,253	96,657,784	40,443,557	10,710,054	7,614	11,941	–	7,642	1,456,184	8,749	56	2,278	7,150	–	3,297,251	711,453
Loan and advances, accrued interest	16,835,868	–	–	–	9,577,149	1,500	20,679,726	300,430	–	9,651,352	–	19,058,632	–	–	–	–	–	102,460	2,082,041
Receivables and prepayments	547,500	–	–	–	2,289,826	–	54,584	–	–	22,732,386	–	–	–	–	–	–	10,053,446	3,100,000	–
RMBSs	–	–	–	–	360,010,446	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Quoted USD bonds	–	–	–	–	41,170,073	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Accrued interest payable on swap	–	–	–	–	1,135,791	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	–	14,226	–	–	–	–	–	–	–	–	–	–	–	–
Letter of credit and Letter of guarantee	–	–	–	–	–	2,540	–	–	–	–	–	–	–	–	–	–	–	–	–
Undrawn credit line	–	–	–	–	–	2,500	5,000	700,000	–	–	–	478,216	–	–	–	–	–	838,861	607,969
Derivative financial liability	–	–	–	–	52,977,717	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transactions																			
Interest income on																			
Loans and advances	963,460	–	–	–	1,398,737	5	2,706,094	5,453	–	2,792,679	–	1,532,062	–	–	–	–	–	23,640	245,122
Financial instruments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
RMBSs	–	–	–	–	38,311,632	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Swap	–	–	–	–	7,088,332	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest expense on																	–		
Deposits	–	–	–	320,120	5,383,638	200,715	538,866	–	–	–	–	–	–	–	–	–	–	1,080	33,724
Services obtained	–	–	–	210,430	–	415,000	72,793	5,089,144	–	–	–	–	–	–	–	–	–	–	–
Commission income	7,379	4	–	169	11,602	3,117	10,494	5,564	13	42	28	8,136	24	24	60	13	–	783	2,916
Remuneration	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	24,313,054

34. Related party disclosures (contd.)

At 31 December 2022	TDB Capital LLC* MNT'000	Globull MNT'000	US Global Investment LLC MNT'000	JCDecaux LLC MNT'000	MIK MNT'000	TDB Securities LLC MNT'000	TDB Leasing LLC MNT'000	NNC MNT'000	NNC Publishing LLC MNT'000	CNB Consulting LLC MNT'000	Absolute Management LLC MNT'000	MNREC MNT'000	Mongol General Leasing LLC MNT'000	Times Media Corporation LLC MNT'000	Valiant Art LLC MNT'000	TDB Asset Management SC LLC MNT'000	Beneficial owner and its immediate family MNT'000	Key Management Personnel 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																		
Interest income on																		
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	–	–	–	–	–	–	–	–	–	–	–	–	–
Interest expense on																		
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

34. 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.

35. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 32 'Liquidity risk' for the Bank's contractual undiscounted repayment obligations.

At 31 December 2023	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Assets			
Cash and balances with BoM	2,308,730,146	–	2,308,730,146
Due from other banks and financial institutions	1,651,798,375	–	1,651,798,375
Financial assets at fair value through profit or loss	26,422,303	335,987,701	362,410,004
Debt instruments at FVOCI	1,367,587,636	142,946,991	1,510,534,627
Equity instruments at FVOCI	–	41,972,381	41,972,381
Equity instruments at FVTPL	1,700,000	–	1,700,000
Debt instruments at amortised cost	6,376	1,305,600	1,311,976
Investment in associate	–	5,196,223	5,196,223
Derivative financial instruments	162,296,283	9,892,294	172,188,577
Loans and advances to customers	2,368,190,226	2,565,266,996	4,933,457,222
Other assets	121,706,721	387,531,741	509,238,462
Investment properties	–	53,256,860	53,256,860
Assets held for sale	8,259,130	–	8,259,130
Property and equipment	–	567,974,583	567,974,583
Right-of-use assets	–	13,239,874	13,239,874
Intangible assets	–	25,308,105	25,308,105
Total assets	8,016,697,196	4,149,879,349	12,166,576,545
Liabilities			
Due to banks and other financial institutions	318,412,011	–	318,412,011
Repurchase agreements	32,787,807	18,497,245	51,285,052
Due to customers	8,637,077,230	449,740,182	9,086,817,412
Derivative financial instruments	156,992,593	2,117,156	159,109,749
Borrowed funds	656,533,954	216,133,823	872,667,777
Other liabilities	169,297,809	3,437,087	172,734,896
Lease liabilities	6,526,939	7,343,539	13,870,478
Income tax liabilities	76,203,276	704,137	76,907,413
Deferred tax liabilities	–	6,392,862	6,392,862
Total liabilities	10,053,831,619	704,366,031	10,758,197,650
Net*	**(2,037,134,423)**	**3,445,513,318**	**1,408,378,895**

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

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 properties	–	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	8,476,766,438
Net*	**(808,862,927)**	**1,986,874,191**	**1,180,413,054**

*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.

36. 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.

36. Capital adequacy (contd.)

Regulatory capital

BoM requires commercial banks to maintain a minimum core capital adequacy ratio of 9% (2022: 9%) and risk weighted capital ratio of at least 12% (2022: 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:

	2023	2022
Core capital adequacy ratio	16.59%	17.23%
Risk-weighted capital ratio	16.59%	17.23%

	2023 MNT'000	2022 MNT'000
Tier I Capital		
Share capital	340,852,905	323,810,303
Share premium	66,449,640	690
Retained earnings	747,341,342	684,375,015
Adjustment (See Note 32)	–	–
Total Tier I Capital	1,154,643,887	1,008,186,008
Total Tier II Capital	–	–
Total capital /capital base	**1,154,643,887**	**1,008,186,008**

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

%	2023 Risk Assets MNT'000	Weighted MNT'000	2022 Risk Assets MNT'000	Weighted MNT'000
0	3,970,590,870	–	3,323,354,227	–
20	1,850,945,772	303,501,968	930,152,353	156,170,170
50	1,858,520,029	907,607,991	1,462,045,506	711,792,642
100	4,927,471,660	4,580,507,946	4,061,603,072	3,767,176,163
150	1,056,959,222	1,034,018,974	983,928,569	1,093,884,504
Adjustments:				
Operational risk ratio	–	77,045,444	–	78,694,871
Foreign exchange risk ratio	–	56,861,978	–	42,571,900
Total	**13,664,487,553**	**6,959,544,301**	**10,761,083,727**	**5,850,290,250**

Core capital adequacy ratio and risk-weighted capital ratio presented above are prepared based on unaudited financial information and according to BOM regulations as of 31 December 2023 that were submitted by the Bank to BoM. The core capital adequacy ratio and the risk weighted capital ratio calculated based on the audited financial results prepared in accordance with IFRS are 15.59% and 15.59% respectively.

37. 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.

38. 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.