STATE BANK JSC

(Incorporated in Mongolia)

Audited Financial Statements
31 December 2023

STATE BANK JSC

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FOR THE YEAR ENDED 31 DECEMBER 2023

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GENERAL INFORMATION

BOARD OF DIRECTORS	Mr. Telmuun Byambaragchaa Mr. Ganbat Byambajav Mr. Sukh-Ochir Batsukh Mrs. Zolboo Ganbold Mr. Sonor Luvsandorj Mr. Batjargal Mishir Mrs. Enkhjargal Danzanbaljir Mrs.Tsend-Ayush Sosor
CORPORATE SECRETARY	Mrs. Uyanga Erdenebaatar
REGISTERED OFFICE	State Bank Building Baga Toiruu - 7/1, 1st Khoroo, Chingeltei District, Ulaanbaatar - 210644, Mongolia
AUDITOR	Ernst & Young Mongolia Audit LLC Certified Public Accountants

STATE BANK JSC

STATEMENT BY THE CHAIRMAN AND EXECUTIVES

We, Telmuun Byambaragchaa, being the Chairman of State Bank JSC (the "Bank"), Gantur Ulzii, being the Chief Executive Officer of the Bank, and Lkhagvasuren Khishigtogtokh, being the Acting Deputy Chief Executive Officer, primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 7 to 82 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 with International Financial Reporting Standards as issued by the International Accounting Standards Board.

УЛААНБААТАР ХОТ
ТӨРИЙН
БАНК
5341469 ГСТ5382

TELMUUN BYAMBARAGCHAA
Chairman

GANTUR ULZII
Chief Executive Officer

LKHAGVASUREN KHISHIGTOGTOKH
Acting Deputy Chief Executive Officer

Ulaanbaatar, Mongolia
Date: 15 March 2024

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of State Bank JSC

Unqualified opinion

We have audited the financial statements of State Bank 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 of its financial performance and cash flows for the year then ended in accordance with 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 Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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 matter 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 43% 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.	For assessment of impairment allowance 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.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of State Bank JSC

Key Audit Matters (Cont'd.)

Key audit matter	How our audit addressed the key audit matter
Allowance for loan losses	
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"); • 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 Notes 2.5 and 3 to the financial statements, respectively. Other relevant disclosures of loans and advances to the customers and related credit risk management are included in Notes 10, 16 and 33.2 to the financial statements, respectively.	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, the appropriateness of determination of PD, LGD and EAD, and the forward-looking macroeconomic variables incorporated in the model. 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.

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of State Bank JSC

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 not including 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 Responsibility for the Audit of the Financial Statements

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of State Bank JSC

Auditor's Responsibility for the Audit of the Financial Statements (cont'd.)

- 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the 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.

Other Matter

The financial statements of the Bank for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 10 March 2023.

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:	**Approved by:**
Khabylkhairat Bulanbai	Adrian Chu
Director	Partner

Date: 15 March 2024

STATE BANK JSC

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	5	484,181,209	396,145,491
Other interest and similar income	5	16,418,330	8,784,428
Interest and similar expense calculated using the effective interest method	6	(256,526,566)	(182,859,623)
Net interest income		**244,072,973**	**222,070,296**
Fee and commission income	7	39,782,977	34,132,518
Fee and commission expense	7	(11,437,503)	(8,828,413)
Net fee and commission income		**28,345,474**	**25,304,105**
Net trading income	8	17,413,277	13,461,603
Other operating expense	9	(10,451,396)	(2,559,306)
Total operating income		**279,380,328**	**258,276,698**
Credit loss reversal on financial assets	10	7,533,280	4,157,793
Net operating income		**286,913,608**	**262,434,491**
Operating expense	11	(163,325,763)	(138,280,871)
Profit before tax		**123,587,845**	**124,153,620**
Income tax expense	12	(28,818,742)	(26,858,777)
Profit for the year		**94,769,103**	**97,294,843**
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders	30	125.51	134.59
Diluted, profit for the year attributable to ordinary equity holders	30	125.51	134.59
Other comprehensive income (net of tax):			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Net change in fair value of debt instruments at fair value through other comprehensive income	30	12,700,061	(15,035,130)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Revaluation gains on property and equipment	30	20,405,154	11,134
Revaluation loss on investment property	30	(616,500)	–
Utilisation of Social Development Fund	30	(32,557)	(37,950)
Other comprehensive income/(loss)		**32,456,158**	**(15,061,946)**
Total comprehensive income for the year, net of tax		**127,225,261**	**82,232,897**

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

STATE BANK JSC

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Notes	31 December 2023 MNT'000	31 December 2022 MNT'000
ASSETS			
Cash and balances with Bank of Mongolia	13	1,239,717,159	726,396,277
Due from banks and other financial institutions	14	272,978,143	231,538,852
Derivative financial instruments	15	2,387,557	15,034,433
Loans and advances to customers	16	2,247,305,449	1,868,626,502
Financial assets held for trading	17	11,741,770	10,896,733
Financial assets at fair value through profit or loss	17	152,750,837	128,002,947
Debt instruments at fair value through other comprehensive income	18	1,211,237,832	957,771,729
Debt instruments at amortised cost	18	10,237,465	68,223,496
Equity instruments at fair value through other comprehensive income	18	121,038	120,466
Other assets	19	45,714,781	18,279,807
Assets held for sale	20	668,453	12,894,113
Investment property	21	2,232,000	2,848,500
Property and equipment	22	156,126,616	118,046,524
Intangible assets	23	6,788,664	5,940,582
Right-of-use assets	24	8,263,133	20,573
TOTAL ASSETS		**5,368,270,897**	**4,164,641,534**
LIABILITIES			
Due to banks and other financial institutions	25	344,672,374	315,533,091
Repurchase agreements	26	600,510,177	333,230,213
Due to customers	27	3,426,825,267	2,749,360,513
Derivative financial instruments	15	6,356,764	2,286,265
Borrowed funds	28	353,400,228	234,934,137
Other liabilities	29	38,573,270	26,360,480
Lease liabilities	24	8,856,935	197,130
Income tax liabilities	12	10,496,995	1,196,135
Deferred tax liabilities	12	3,228,975	5,334,391
TOTAL LIABILITIES		**4,792,920,985**	**3,668,432,355**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Ordinary shares	30	188,774,063	188,774,063
Share premium	30	14,652,725	14,652,725
Other reserves	30	66,822,643	14,215,779
Retained earnings		305,100,481	278,566,612
TOTAL EQUITY		**575,349,912**	**496,209,179**
TOTAL LIABILITIES AND EQUITY		**5,368,270,897**	**4,164,641,534**

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

STATE BANK JSC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Ordinary shares MNT'000 (Note 30)	Share premium MNT'000 (Note 30)	Other reserves MNT'000 (Note 30)	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2022	**178,000,000**	–	**29,368,212**	**181,115,726**	**388,483,938**
Profit for the year	–	–	–	97,294,843	97,294,843
Other comprehensive income	–	–	(15,061,946)	–	(15,061,946)
Total comprehensive income	–	–	**(15,061,946)**	**97,294,843**	**82,232,897**
Share issued	10,774,063	14,652,725	–	65,556	25,492,344
Realised revaluation reserve	–	–	(90,487)	90,487	–
At 31 December 2022 and 1 January 2023	**188,774,063**	**14,652,725**	**14,215,779**	**278,566,612**	**496,209,179**
Profit for the year	–	–	–	94,769,103	94,769,103
Other comprehensive income	–	–	32,456,158	–	32,456,158
Total comprehensive income	–	–	**32,456,158**	**94,769,103**	**127,225,261**
Transfer to/(from) regulatory reserve*	–	–	20,150,706	(20,150,706)	–
Dividends	–	–	–	(48,084,528)	(48,084,528)
At 31 December 2023	**188,774,063**	**14,652,725**	**66,822,643**	**305,100,481**	**575,349,912**

*Reserves include the regulatory reserve that is set up in compliance with BoM requirements and is distributable to Shareholders of the Bank subject to BoM's approval (Note 30).

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

STATE BANK JSC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 MNT'000	2022 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		123,587,845	124,153,620
Adjustments for:			
Changes in fair value of financial derivatives	9	15,838,946	(12,797,646)
Changes in fair value of financial assets held for trading	9	(844,144)	(2,571,811)
Reversal of impairment provision for repossessed collaterals	9	740,084	4,641,891
Reversal of expected credit loss allowance	10	(7,533,280)	(4,157,793)
Depreciation of property and equipment	11	15,534,573	13,183,381
Amortisation of intangible assets	11	1,341,942	766,441
Depreciation of rights of use assets	11	4,152,139	32,706
Property and equipment written-off	22	2,508	223,902
Gain on disposal of asset held for sale	9	(3,742)	-
Gain on property revaluation	9	(1,949,384)	-
Gain on disposal of foreclosed properties	9	834,823	-
Gain on investment property revaluation	9	-	(483,622)
Interest expense on borrowed funds	31	15,651,501	6,714,912
Accretion interest on lease liability	6	1,548,265	7,572
Distribution of social development fund	30	(32,557)	(37,950)
Non-cash arising from financing activities including forex		(1,313,609)	(22,862,587)
Operating profit before working capital changes		**167,555,910**	**106,813,016**
Changes in operating assets and liabilities:			
Statutory deposits with BoM		(80,983,879)	(33,805,186)
Due from banks		(27,636)	(201,939)
Loans and advances to customers		(375,540,159)	371,134,331
Derivative financial instruments		878,429	(741,336)
Other assets		(38,278,678)	(4,541,889)
Asset held for sale		12,177,469	(13,795,681)
Due to banks		29,139,283	199,580,292
Repurchase agreements		267,279,964	179,420,520
Due to customers		677,464,754	(107,437,532)
Other liabilities		11,472,435	10,512,504
Cash generated from operations		**671,137,892**	**706,937,100**
Income taxes paid	12	(22,091,217)	(26,762,984)
Interest portion of the lease liability paid	31	(1,548,265)	(7,572)
Interest paid on borrowed funds	31	(11,728,573)	(6,456,396)
Net cash flows generated from operating activities		**635,769,837**	**673,710,148**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial investments		(10,804,145,826)	(23,970,892,184)
Proceeds from disposal of financial investments		10,566,802,320	23,659,267,079
Proceeds from disposal of asset held for sale	20	51,933	7,663,867
Proceeds from disposal of foreclosed properties	19	10,606,941	3,753,813
Proceeds from disposal of property and equipment	22	39,601	-
Purchase of property and equipment	22	(30,301,330)	(15,535,177)
Purchase of intangible assets	23	(3,190,930)	(1,076,248)
Net cash flows used in investing activities		**(260,137,291)**	**(316,818,850)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from drawdown of borrowed funds	31	510,332,167	611,597,875
Repayment of borrowed funds	31	(392,885,768)	(636,050,626)
Payment of principal portion of lease liabilities	31	(3,734,894)	(37,427)
Received from issuance of share and other equity securities		-	25,426,788
Dividend paid to equity holders		(48,084,528)	-
Net cash flows generated from financing activities		**65,626,977**	**936,610**
Net increase in cash and cash equivalents		**441,259,522**	**357,827,908**
Cash and cash equivalents brought forward		1,155,826,101	797,998,193
Cash and cash equivalents carried forward	31	**1,597,085,623**	**1,155,826,101**
NON CASH MOVEMENT			
Right of use assets		12,394,699	–
Lease liability		12,394,699	–

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

1. CORPORATE INFORMATION

The Bank is engaged in the business of providing banking and financial services pursuant to License No. 26 issued by the Bank of Mongolia ("BoM"). The Bank is a joint stock company incorporated and domiciled in Mongolia. Its registered office is at State Bank Building, Baga Toiruu – 7/1, 1st Khoroo, Chingeltei District, Ulaanbaatar -210644, Mongolia. The Bank has a primary listing on the Mongolian Stock Exchange ("MSE").

The Bank is 49.26% (2022: 49.26%) owned by the Ministry of Finance of Mongolia and 45.03% (2022: 45.03%) owned by the Deposit Insurance Corporation (DIC) and 5.71% is (2022: 5.71%) owned by the public.

The financial statements for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Board of Directors on 15 March 2024.

2. ACCOUNTING POLICY

2.1 Basis of preparation

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").

These financial statements 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 and properties all of which have been measured at fair value. The financial statements are presented in Mongolian Tugrik ("MNT"), which is the functional currency of the Bank and all values are rounded to the nearest thousands, except when otherwise indicated.

2.2 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 36.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts without being contingent on a future event and there is an intention to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or the counterparties.

Derivative assets and liabilities with master netting arrangements are only presented net when they satisfy the eligibility of netting for all of the above criteria and not just in the event of default.

2.3 New and amended standards and interpretations

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. These amendments had no material impact on the financial statements of the Bank during the period.

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

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

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Bank's financial statements.

2. ACCOUNTING POLICY (CONT'D.)

2.3 New and amended standards and interpretations (cont'd.)

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

Definition of Accounting Estimates – Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Bank's approach and policy align with the amendments, the amendments had no impact on the Bank's financial statements.

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

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Bank's financial statements.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.The amendment had no material impact on the financial statements for the year ended 31 December 2023.

2.4 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 new and amended standards, if applicable, when they become effective.

• Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[1]
• Amendments to IAS 1	*Non-current Liabilities with Covenants and Classification of Liabilities as Current or Non-current*[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] *Effective period to be determined*

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

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies

Foreign currency translation

The financial statements are presented in Mongolian Tugrik, which is the functional currency of the Bank.

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non–trading activities are taken to other operating income/expense in the statement of profit or loss.

Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

Recognition of interest income

The effective interest rate method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded 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 asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

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

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

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

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 in 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 "Net trading income".

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 (as set out in Note "Impairment of financial assets" 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 (as outlined in Note "Impairment of financial assets") and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Fee and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is 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
Fee and commission income earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees as follows:

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

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

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 held for trading.

Net gain or loss on financial assets and liabilities designated at fair value through profit or loss

Net gain or loss on financial instruments at FVTPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVTPL and also non-trading assets measured at FVTPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest 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 or FVOCI includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs or FVOCI calculated as the difference between the book value (including impairment) and the proceeds received.

Financial instruments – initial recognition

Date of recognition

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

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Financial instruments – initial recognition (cont'd.)

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. 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.

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 income statement volatility.

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

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 and the credit spread on credit default swaps and traded debts on itself.

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.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Financial assets and liabilities

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;
- 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.

SPPI test

As a second step of its classification process the Bank assesses the contractual terms of the financial asset 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 that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts 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 counterparties. These include interest rate swaps, futures, cross-currency swaps, forward foreign exchange contracts and options 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 net trading income.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Financial assets and liabilities (cont'd.)

Financial assets held for trading

The Bank classifies financial assets as held for trading when they have been purchased 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 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.

Included in this classification are debt securities, equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

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 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 statement of 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.

Debt instrument 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 ECL calculation for Debt instruments at FVOCI is explained further below. 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.

Financial assets at fair value through profit or loss

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. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; Or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; Or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

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

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Financial assets and liabilities (cont'd.)

Debt issued and other borrowed funds

After initial measurement, debt issued, and other borrowed funds are subsequently measured at amortised cost using the EIR methodology. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. 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. The Bank separately recognises the components of a financial instrument that: (a) creates a financial liability for the Bank; and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity. 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.

The Bank only separates the embedded derivatives from the host contract and accounts for them as a derivative when:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms of the embedded derivatives would meet the definition of a derivative
- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e., a derivative that is embedded in a financial asset or financial liability at FVTPL is not separated).

Financial guarantees, letters 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 Provisions) 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 statement of profit or loss.

The premium received is recognised in the statement of profit or loss 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, if any are disclosed in Note 32.

Due to customers

This includes current, savings, time deposits and bank guarantee fund from customers. The Bank recognises due to customer balances when funds reach the Bank. 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. After initial measurement, due to banks are subsequently measured at amortised cost using the EIR.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Reclassification of financial assets and liabilities

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
- If the modification is such that the instrument would no longer meet the SPPI criterion

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

Modification of financial liabilities

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

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

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

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

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 financial 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 financial asset; or
- It retains the rights 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.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Derecognition of financial assets and liabilities (cont'd.)

The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

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

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

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, 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.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

The derivatives, are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event and the Bank also intends to settle on a net basis in all the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties

Impairment of financial assets

Overview of the ECL principles

The Bank records an allowance for expected credit loss 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 losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 33.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Impairment of financial assets (cont'd.)

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

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

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

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and 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.

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.

The calculation of ECLs

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.
- Cure rate: The cure rate is an estimate portion of defaulted loans that eventually recover from the default.

When estimating the ECL, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs, relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

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.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Impairment of financial assets (cont'd.)

The mechanics of the ECL method are summarised below:

• Stage 1:	The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
• Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
• Stage 3:	For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
• 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 loan commitments and letters of credit, the ECL is recognised within Provisions.
• 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 the income statement, 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 scenarios. The ECL related to financial guarantee contracts are recognised within Provisions

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. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECL for these products, is twelve months for credit cards and thirty-six months for overdrafts.

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 as economic inputs, such as:

- Commodity prices inflation rate
- Economic growth
- USD exchange rate
- Loan increase
- Money supply (M2) increase
- Deposit interest rate (weighted average rate)
- Loan interest rate (weighted average rate)
- Policy rate

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Impairment of financial assets (cont'd.)

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

Credit enhancements: collateral valuation and financial guarantees

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

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a semi-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 ECLs when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended. Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL as an off-balance sheet item.

Collateral repossessed

The Bank's policy is to determine whether a repossessed 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 repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option and which expected to be sold within twelve months are transferred to "Assets held for sale" at their 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.

The criteria for assets 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.

Property and equipment are not depreciated once classified as held for sale. Assets classified as held for sale are presented separately as current items in the statement of financial position. Additional disclosures are provided in Note 19 and Note 20.

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.

Forborne and 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. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Forborne and modified loans (contd.)

When the loan has been renegotiated or modified but not derecognised, the Bank considers that there has been a significant increase in credit risk and thus classifies the loan as Stage 2. Once an asset has been classified as forborne, it will remain forborne until it is reclassified out of the forborne category by meeting following criteria:

- All of its facilities have to be considered performing
- Regular and timely payments have been made during a six-month period according to the renewed repayment schedule
- The customer does not have any contracts that are more than 30 days past due

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with BoM and amounts due from banks on demand or with an original maturity of three months or less.

Mandatory cash balances with the Bank of Mongolia

Mandatory cash balances with the Bank of Mongolia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

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 cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and 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 net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised in the statement of financial position, unless they are then sold to third parties, in which case, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

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.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Leases (contd.)

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. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 24 and are subject to impairment in line with the Bank's policy.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (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. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as other income in the period in which they are earned.

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 property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

If owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. Any resulting decrease in the carrying amount of the property is recognised in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is recognised in other comprehensive income and reduces the revaluation surplus within equity.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Property, equipment and right-of-use assets

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates. Right-of-use assets are presented separately from property and equipment in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation of owned assets is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings	25 and 40 years
Computer hardware	2 years
Office furniture and equipment	10 years
Motor vehicles	10 years

Property and equipment transferred from customers is initially measured at fair value at the date on which control is obtained.

Land and buildings are subsequently measured at fair value less accumulated depreciation and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

The frequency of revaluations depends upon the changes in fair values of the land and buildings being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some buildings may experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for buildings with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

A revaluation surplus is credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation surplus to retained earnings is made for an amount equal to the excess depreciation on revalued assets. Additionally, 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 surplus relating to the particular asset being sold is transferred to retained earnings.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) 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 statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. Construction in-progress is stated at cost, which includes cost of construction equipment and other direct 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.

Intangible assets

The Bank's intangible assets include the value of computer software, licenses and land use rights.

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. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. 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 yearend. 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 they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as part of 'other operating expense' in profit or loss. The land rights have indefinite useful lives and are tested for impairment annually.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Intangible assets (cont'd.)

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software (core banking software)	2-10 years
Software and licenses	1-10 years

Impairment of non-financial assets

The Bank assesses, 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 estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When 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 of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates 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 exceed 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 unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, 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. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement in other operating expenses.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive management committee whose members are responsible for allocating resources and assessing performance of the operating segments.

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.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Employee benefits (cont'd.)

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.

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 reporting date in the country where the Bank operates and generates taxable income.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

The carrying amount of deferred tax assets is reviewed at each reporting 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 reporting date and are recognised to the extent that it becomes 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 reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the statement of profit or loss except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the statement of profit or loss together with the respective deferred loss or gain

The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis.

Equity and dividends on ordinary shares

Ordinary shares are classified as equity. The transaction costs of an equity transaction are accounted for as a deduction from the equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

2. ACCOUNTING POLICY (CONT'D.)

2.5 Material accounting policies (cont'd.)

Other reserves

The other reserves recorded in equity on the Bank's statement of financial position include:

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

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.

Social development fund
At the discretion of the management, a portion of retained earnings is contributed to the fund which is used to address the Bank employees' social and economic needs.

Other reserves
The Bank maintains reserves in order to hedge itself against unforeseen risks. At the discretion of the management, a portion of unappropriated retained earnings is transferred to these reserves.

Transactions with related parties

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

a. A person or a close member of that person's family is related to a Bank if that person:
   (i) has control or joint control of the Bank;
   (ii) has significant influence over the Bank; or
   (iii) is a member of the key management personnel of the Bank.

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. All material transactions and balances with the related parties are disclosed in the relevant notes to the financial statements and the detail is presented in Note 35.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D.)

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

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 has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

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 that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimates and assumptions

Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's staging assessment
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- 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 scenarios, economic inputs, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 34.

Revaluation of land and buildings

The Bank measures its land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive income (OCI). In 2023, the Bank engaged an independent external valuer to assess fair value of the buildings and land use rights. Buildings were valued principally by reference to market-based evidence, using comparable market prices and income approaches adjusted for specific market factors such as nature, location and condition of the buildings. Where market-based evidence was not available, such as in more remote locations, buildings were valued by reference to the reproduction cost of an equivalent building. As at 31 December 2023, management has assessed that the fair values of buildings changed significantly from the carrying amounts, hence, the difference is reflected within the financial statements. This valuation assessment requires exercise of judgment from management and independent valuer based on their experience of those properties as well as other assumptions described in Note 34.

4. SEGMENT REPORTING

For management purposes, the Bank organised into three operating segments based on its products and services.

Operational segments

The banking operations segment consists of the following main segments:

- *Retail operation:* Individual customers' current accounts, deposits accounts, debit and credit cards, agricultural loans, consumer loans, financial leases, eco loans, agricultural loans, cash transfers and remittances.
- *Business operation:* Commercial banking activities for corporate customers including state-owned entities, SMEs, and bank customers include debit instruments, current accounts, deposits, overdrafts, loans, finance for trading, other credit instruments, and international transfers.
- *Treasury management:* Cash management, BoM bills, interbank loans, deposits and financial instruments trading.

Segment information is reported based on the Bank's business segment. Based on the Bank's management and internal reporting structure, the segment reporting structure and operational segments are presented.

The treasury department organizes the bank's treasury management activities. These include the bank's financing and centralized risk management activities have the following responsibilities, such as borrowings, issuing debt instruments, the use of derivatives for risk management purposes, short-term investments, and investments in corporate, government and Bank of Mongolia's debt securities. This activity is bank's treasury management operation.

Bank's management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and loss which in certain respect is measured differently from operating profit and loss in the financial statements.

Geographical information

All Bank's activities were carried out in Mongolia as of 31 December 2023. Therefore, no geographical analysis is presented. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2023.

4. SEGMENT REPORTING (CONT'D.)

At 31 December 2023	Retail MNT'000	Business MNT'000	Treasury MNT'000	Total MNT'000
Interest income calculated using the effective interest method	335,312,809	13,233,266	135,635,134	484,181,209
Other interest and similar income	3,804,901	-	12,613,429	16,418,330
Interest and similar expenses calculated using the effective interest method	(114,686,648)	(15,187,460)	(126,652,458)	(256,526,566)
Net interest income	**224,431,062**	**(1,954,194)**	**21,596,105**	**244,072,973**
Fee and commission income	38,150,486	1,632,489	2	39,782,977
Fee and commission expense	(9,750,043)	(998,155)	(689,305)	(11,437,503)
Net fee and commission income	**28,400,443**	**634,334**	**(689,303)**	**28,345,474**
Net trading income	3,673,163	173,137	13,566,977	17,413,277
Other operating expenses	4,174,398	(1,169,108)	(13,456,686)	(10,451,396)
Credit loss expense on financial assets	7,557,944	(34,865)	10,201	7,533,280
Depreciation of property and equipment	(13,595,648)	(1,938,925)	-	(15,534,573)
Depreciation of right of use assets	(3,633,896)	(518,243)	-	(4,152,139)
Amortisation of intangible assets	(1,174,449)	(167,493)	-	(1,341,942)
Operating expenses	(135,224,169)	(6,183,309)	(889,631)	(142,297,109)
Profit before tax	**114,608,848**	**(11,158,666)**	**20,137,663**	**123,587,845**
Income tax expense*	(26,724,981)	2,602,025	(4,695,786)	(28,818,742)
Profit for the year	**87,883,867**	**(8,556,641)**	**15,441,877**	**94,769,103**
Other segment information				
Capital expenditures:				
Property and equipment	26,519,313	3,782,017	-	30,301,330
Other intangible assets	2,792,659	398,271	-	3,190,930
	29,311,972	4,180,288	-	33,492,260
Segment assets	**2,967,133,311**	**173,644,403**	**2,227,493,183**	**5,368,270,897**
Segment liabilities	**2,545,504,117**	**131,080,998**	**2,116,335,870**	**4,792,920,985**

At 31 December 2022	Retail MNT'000	Business MNT'000	Treasury MNT'000	Total MNT'000
Interest income calculated using the effective interest method	280,242,053	17,699,846	98,203,592	396,145,491
Other interest and similar income	163,785	-	8,620,643	8,784,428
Interest and similar expenses calculated using the effective interest method	(105,497,584)	(4,648,623)	(72,713,416)	(182,859,623)
Net interest income	**174,908,254**	**13,051,223**	**34,110,819**	**222,070,296**
Fee and commission income	32,289,174	1,823,342	20,002	34,132,518
Fee and commission expense	(7,212,890)	(1,159,693)	(455,830)	(8,828,413)
Net fee and commission income	**25,076,284**	**663,649**	**(435,828)**	**25,304,105**
Net trading income	6,082,099	350,586	7,028,918	13,461,603
Other operating expenses	(2,360,648)	652,878	(851,536)	(2,559,306)
Credit loss expense on financial assets	13,631,746	(9,999,759)	525,806	4,157,793
Depreciation of property and equipment	(11,537,916)	(1,645,465)	-	(13,183,381)
Depreciation of right of use assets	(28,624)	(4,082)	-	(32,706)
Amortisation of intangible assets	(670,779)	(95,662)	-	(766,441)
Operating expenses	(114,231,323)	(9,027,862)	(1,039,158)	(124,298,343)
Profit before tax	**90,869,093**	**(6,054,494)**	**39,339,021**	**124,153,620**
Income tax expense*	(19,637,520)	1,280,212	(8,501,469)	(26,858,777)
Profit for the year	**71,231,573**	**(4,774,282)**	**30,837,552**	**97,294,843**
Other segment information				
Capital expenditures:				
Property and equipment	13,596,176	1,939,001	-	15,535,177
Other intangible assets	941,918	134,330	-	1,076,248
	14,538,094	2,073,331	-	16,611,425
Segment assets	**2,516,622,700**	**263,670,045**	**1,380,583,353**	**4,160,876,098**
Segment liabilities	**2,168,845,737**	**196,070,883**	**1,299,750,299**	**3,664,666,919**

*Allocation of income tax expense for each segment is calculated using the effective income tax rate of 23.3% for 2023 (2022: 21.6%) (Note 12.1).

5. INTEREST AND SIMILAR INCOME

	2023 MNT'000	2022 MNT'000
Interest income calculated using the effective interest method		
Loans and advances to customers	348,487,710	297,887,697
Debt instruments at FVOCI	92,420,524	68,363,362
Cash and balances with BoM	18,620,095	10,358,274
Swap interest income	12,341,847	7,047,692
Due from banks and other financial institutions	9,675,769	5,638,178
Reverse repurchase agreements	110,016	165,858
Debt instruments at amortised cost	2,525,248	6,684,430
	484,181,209	396,145,491
Other interest and similar income		
Debt instrument measured at FVTPL	12,613,429	8,620,643
Loans and advances to customers measured at FVTPL	3,804,901	163,785
	16,418,330	8,784,428

In 2023, interest income from debt instruments at FVOCI includes interest income from Government bonds amounting to MNT 13,638,346 thousand (2022: MNT 11,169,148 thousand).

6. INTEREST AND SIMILAR EXPENSES

	2023 MNT'000	2022 MNT'000
Interest expense calculated using the effective interest method		
Due to customers	201,842,335	148,844,706
Borrowed funds (Note 31)	15,651,501	6,714,912
Due to banks and other financial institutions	11,395,780	8,964,910
Repurchase agreements	9,822,729	8,756,981
Swap interest expense	16,265,956	9,570,542
Interest expense on lease liabilities (Note 24)	1,548,265	7,572
	256,526,566	182,859,623

7. NET FEES AND COMMISSION INCOME

	2023 MNT'000	2022 MNT'000
Fees and commission income from providing financial services at a point in time		
Account and other service fees and commissions	10,422,205	8,750,354
Card related fees and commissions	14,449,578	12,865,870
Mobile services fees and commissions	12,018,075	9,749,506
Credit related fees and commissions	2,381,516	2,297,112
Remittance fees and commissions	511,603	469,676
	39,782,977	**34,132,518**
Fees and commission expenses		
Bank service charges	4,800,328	3,535,927
Card transaction charges	6,379,571	5,092,595
Other commission expenses	257,604	199,891
	11,437,503	**8,828,413**
Net fees and commission income	**28,345,474**	**25,304,105**

8. NET TRADING INCOME

	2023 MNT'000	2022 MNT'000
Foreign exchange gain, net	17,413,277	13,461,603
	17,413,277	**13,461,603**

Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives.

9. OTHER OPERATING EXPENSES

	2023 MNT'000	2022 MNT'000
Non-trading foreign exchange (gain)/loss, net	(1,537,252)	16,222,021
Fair value change of swaps	15,838,946	(12,797,646)
Fair value change of financial assets held for trading	(844,144)	(2,571,811)
Impairment provision for repossessed collaterals (Note 19)	740,084	4,641,891
Gain on property revaluation (Note 22)	(1,949,384)	–
Gain on investment property revaluation (Note 21)	–	(483,622)
Gain on disposal of asset held for sale (Note 20)	(3,742)	–
Gain on disposal of foreclosed properties (Note 19)	(834,823)	–
Others	(958,289)	(2,451,527)
	10,451,396	**2,559,306**

10. CREDIT LOSS REVERSAL

The table below shows the ECL (charges)/reversals on financial assets for the year recorded in profit or loss:

	2023 MNT'000	2022 MNT'000
Net (charge)/reversal for credit loss:		
Balances with BoM (Note 13)	(3,322)	(101,694)
Due from other banks (Note 14)	(37,380)	(28,561)
Loans and advances to customers (Note 16)	3,138,788	2,866,859
Debt instrument measured at amortised cost (Note 18)	346,529	771,399
Debt instrument measured at FVOCI (Note 18)	(274,560)	(217,032)
Contingent liabilities and commitments (Note 29)	(740,355)	–
Other assets (Note 19)	5,103,580	866,822
	7,533,280	**4,157,793**

11. OPERATING EXPENSES

	2023 MNT'000	2022 MNT'000
Salaries, wages and bonuses	89,390,417	71,481,651
Depreciation of property and equipment (Note 22)	15,534,573	13,183,381
Other	10,970,933	9,361,602
Contribution to social insurance fund	9,346,360	7,641,161
Insurance	6,993,861	5,982,122
Communication expenses	5,344,418	5,127,929
Advertising and marketing expenses	4,345,888	3,890,967
Depreciation of right-of-use assets (Note 24)	4,152,139	32,706
Utility expenses	3,181,238	2,391,206
Audit and professional service fee	2,765,064	3,917,685
Security	2,120,495	1,481,822
Business trip expenses	2,028,463	1,244,718
Stationery expenses	1,713,297	3,425,535
Contribution to health insurance fund	1,690,715	1,388,365
Amortization of intangible assets(Note 23)	1,341,942	766,441
Rent expenses	1,270,116	5,714,442
Transportation expenses	1,133,336	1,025,236
Property and equipment written-off (Note 22)	2,508	223,902
	163,325,763	**138,280,871**

12. INCOME TAX

12.1 Income tax expense

The components of income tax expense for the year ended 31 December 2023 and 2022 are:

	2023 MNT'000	2022 MNT'000
Current tax:		
Current income tax	31,392,077	26,859,309
Deferred income tax	(2,573,335)	(532)
	28,818,742	**26,858,777**

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% for the first MNT 6 billion (2022: MNT 6 billion) of taxable income and 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. Impairment losses for loans and advances to customers are deductible for income tax purposes.

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 and 2022 are as follows:

	2023 MNT'000	2022 MNT'000
Accounting profit before income tax	123,587,845	124,153,620
Tax at statutory rate of 25% (2022:25%)	30,896,961	31,038,405
Effect of expenses not deductible for income tax purpose	1,316,725	5,474,062
Effect of income exempted from tax	(3,409,586)	(4,477,587)
Effect of tax bracket	(596,271)	(6,242,152)
Special tax rate	610,913	1,066,049
Tax expense	**28,818,742**	**26,858,777**

The effective income tax rate for 2023 is 23.3% (2022: 21.6%).

12. INCOME TAX (CONT'D.)

12.2 Income tax liabilities

	2023 MNT'000	2022 MNT'000
Income tax liability as at 1 January	1,196,135	4,865,246
Income tax expense for the year	31,392,077	23,093,873
Tax paid	(22,091,217)	(26,762,984)
Income tax liability as at 31 December	**10,496,995**	**1,196,135**

12.3 Deferred tax liabilities

	2023 MNT'000	2022 MNT'000
Deferred tax liabilities		
At 1 January	5,334,391	2,815,761
Recognised in statement of other comprehensive income (Note 30)	4,233,354	(1,246,274)
Recognised through profit and loss	(2,573,334)	3,764,904
DTA net-off	(3,765,436)	–
At 31 December	**3,228,975**	**5,334,391**
Deferred tax assets		
At 1 January	3,765,436	–
Recognised through profit and loss	–	3,765,436
DTA net-off	(3,765,436)	–
At 31 December (Note 19)	–	**3,765,436**

	2023 MNT'000	2022 MNT'000
Deferred tax liabilities		
Depreciation (temporary difference)	(2,573,334)	3,764,904
Debt and equity instruments measured at FVOCI	5,802,309	1,569,487
	3,228,975	**5,334,391**

13. CASH AND BALANCES WITH BANK OF MONGOLIA

	2023 MNT'000	2022 MNT'000
Cash on hand	60,227,340	50,185,617
Current accounts with BoM	749,074,624	676,357,622
Overnight deposit with BoM	430,565,479	–
Gross carrying amount	**1,239,867,443**	**726,543,239**
Less: Allowance for impairment losses on balances with BoM	(150,284)	(146,962)
Net cash and balances with BoM balance	**1,239,717,159**	**726,396,277**

Current accounts with BoM are maintained in accordance with the BoM regulations.

The mandatory reserve held with BoM are determined at not less than 8.0% (local currency) and 18.0% (foreign currency) of customer deposits based on average balance of two (2) weeks. As at 31 December 2023, the average reserves required by BoM for that period of 2 weeks were MNT 222,633 million (2022: MNT 190,345 million) for local currency and MNT 110,415 million (2022: MNT 61,719 million) for foreign currency maintained on current accounts with BoM.

Impairment allowance for mandatory reserves with BoM

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12 month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach are explained in Note 33.

13. CASH AND BALANCES WITH BANK OF MONGOLIA (CONT'D.)

Impairment allowance for mandatory reserves with BoM (cont'd.)

31 December 2022	**12 month PD range**	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
Internal rating grade					
AA to A rated	0.002 – 0.022%	–	–	–	–
Baa-Ba	0.108 – 0.519%	–	–	–	–
B	2.37%	676,357,622	–	–	676,357,622
Caa-C	12.00%	–	–	–	–
Not rated	–	50,185,617	–	–	50,185,617
Total		**726,543,239**	–	–	**726,543,239**

A reconciliation of changes in gross carrying amount and corresponding ECL allowances as at 31 December 2023 and 2022 are as follows:

31 December 2023	**Stage 1**	
	Gross carrying amount MNT'000	**ECL MNT'000**
1 January 2023	726,543,239	146,962
New assets originated or purchased	54,845,828,811	424,931
Payments and assets derecognised	(54,324,749,645)	(421,609)
Accrued interest	1,713,581	–
Foreign exchange adjustments	(9,468,543)	–
At 31 December 2023	**1,239,867,443**	**150,284**

31 December 2022	**Stage 1**	
	Gross carrying amount MNT'000	**ECL MNT'000**
1 January 2022	250,965,959	45,268
New assets originated or purchased	40,135,616,987	345,342
Payments and assets derecognised	(39,675,362,180)	(243,648)
Accrued interest	144,233	–
Foreign exchange adjustments	15,178,240	–
At 31 December 2022	**726,543,239**	**146,962**

14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks represent local and foreign currency current accounts maintained with foreign and local financial institutions.

	2023 MNT'000	**2022 MNT'000**
Placement with foreign banks and financial institutions	64,426,120	30,476,584
Placement with foreign financial institution as cash collateral on international card transaction	1,014,547	958,350
Placement with local banks and financial institutions	207,603,417	200,132,479
Gross carrying amount	**273,044,084**	**231,567,413**
Less: Allowance for impairment losses	(65,941)	(28,561)
Net due from banks and other financial institutions balance	**272,978,143**	**231,538,852**

14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONT'D.)

A reconciliation of changes in gross carrying amount and corresponding ECL allowances as at 31 December 2023 and 2022 are as follows:

31 December 2023	**Stage 1**	
	Gross carrying amount MNT'000	**ECL MNT'000**
1 January 2023	231,567,413	28,561
New assets originated or purchased	8,164,314,294	139,353
Payments and assets derecognised	(8,122,603,030)	(101,973)
Accrued interest	328,487	–
Foreign exchange adjustments	(563,080)	–
At 31 December 2023	**273,044,084**	**65,941**

31 December 2022	**Stage 1**	
	Gross carrying amount MNT'000	**ECL MNT'000**
1 January 2022	28,534,316	–
New assets originated or purchased	3,435,614,418	63,456
Payments and assets derecognised	(3,238,504,478)	(34,895)
Accrued interest	286,675	–
Foreign exchange adjustments	5,636,482	–
At 31 December 2022	**231,567,413**	**28,561**

15. 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.

		Fair value	
Swaps	**Notional amount MNT'000**	**Asset MNT'000**	**Liability MNT'000**
2023	190,005,050	2,342,643	(6,356,764)
2022	104,385,600	14,979,687	(2,286,265)
Options			
2023	540,110	44,914	–
2022	580,110	54,746	–

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 has signed currency swap trading agreements with Bank of Mongolia with maturity on 25 March 2025 and 2 December 2024. Swap amounts are equivalent to USD 25 million and USD 30 million, respectively.

The Bank entered into options agreement with Khan-Altai LLC's securities issued in the domestic market on 8 July 2022. The security is denominated in MNT.

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

16. LOANS AND ADVANCES TO CUSTOMERS

	2023 MNT'000	2022 MNT'000
Business loans	557,241,104	681,176,479
Mortgage loans	281,897,022	260,706,562
Consumer loans	863,497,785	632,905,282
Agricultural loans	620,193,450	373,373,231
	2,322,829,361	**1,948,161,554**
Allowance for impairment losses	(188,083,504)	(191,274,581)
Net loans and advances to customers at amortised cost	**2,134,745,857**	**1,756,886,973**
Loans and advances to customers at FVTPL	112,559,592	111,739,529
Total loans and advances to customers	**2,247,305,449**	**1,868,626,502**

Impairment allowance for loans and advances to customers

	Business loans MNT'000	Mortgage loans MNT'000	Consumer loans MNT'000	Agricultural loans MNT'000	Total MNT'000
At 1 January 2023	157,775,226	8,622,800	22,680,890	2,195,665	191,274,581
New assets originated or purchased	1,238,159	486,022	8,563,024	3,027,432	13,314,637
Payments and assets derecognised	(27,270,259)	(1,278,072)	(15,408,182)	(3,668,522)	(47,625,035)
Impact on ECL of transfers	30,934,147	705,694	4,838,112	3,258,732	39,736,685
Changes to assumptions	(12,269,247)	4,339,884	402,260	(1,037,972)	(8,565,075)
Net charge/(reversal) for the year (Note 10)	**(7,367,200)**	**4,253,528**	**(1,604,786)**	**1,579,670**	**(3,138,788)**
Amounts written-off	–	–	(27,787)	–	(27,787)
Foreign exchange and other adjustments	(29,008)	1,023	3,483	–	(24,502)
At 31 December 2023	**150,379,018**	**12,877,351**	**21,051,800**	**3,775,335**	**188,083,504**
At 1 January 2022	157,681,287	9,831,284	25,211,344	620,214	193,344,129
New assets originated or purchased	3,380,667	286,172	6,687,855	1,541,866	11,896,560
Payments and assets derecognised	(34,104,469)	(2,429,860)	(14,534,459)	(2,204,881)	(53,273,669)
Impact on ECL of transfers	34,049,833	870,141	6,929,689	2,229,274	44,078,937
Changes to assumptions	(4,030,808)	20,998	(1,572,010)	13,133	(5,568,687)
Net charge/(reversal) for the year (Note 10)	**(704,777)**	**(1,252,549)**	**(2,488,925)**	**1,579,392**	**(2,866,859)**
Amounts written-off	(2,504)	–	(109,364)	(3,941)	(115,809)
Foreign exchange and other adjustments	801,220	44,065	67,835	–	913,120
At 31 December 2022	**157,775,226**	**8,622,800**	**22,680,890**	**2,195,665**	**191,274,581**

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D.)

Impairment allowance for loans and advances to customers (cont'd.)

Business loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach is set out in Note 33.

Business loans **31 December 2023** Internal rating grade	**12 month** **PD range**	**Stage 1** **MNT'000**	**Stage 2** **MNT'000**	**Stage 3** **MNT'000**	**Total** **MNT'000**
Excellent	0.22% - 9.19%	366,617,460	2,708,935	–	369,326,395
Good	0.34% - 9.91%	–	4,204,856	–	4,204,856
Substandard	100%	–	–	2,624,341	2,624,341
Doubtful	100%	–	–	2,254,272	2,254,272
Bad	100%	–	–	45,108,606	45,108,606
Individually impaired	1.67% - 100%	209,210	7,281,220	126,232,204	133,722,634
Total		**366,826,670**	**14,195,011**	**176,219,423**	**557,241,104**

31 December 2022 Internal rating grade		**Stage 1** **MNT'000**	**Stage 2** **MNT'000**	**Stage 3** **MNT'000**	**Total** **MNT'000**
Excellent	0.02% - 8.36%	454,661,038	7,312,575	–	461,973,613
Good	0.07% - 8.4%	–	15,580,728	–	15,580,728
Substandard	100%	–	–	11,233,680	11,233,680
Doubtful	100%	–	–	13,054,900	13,054,900
Bad	100%	–	–	50,819,153	50,819,153
Individually impaired	100%	941,222	9,525,439	118,047,744	128,514,405
Total		**455,602,260**	**32,418,742**	**193,155,477**	**681,176,479**

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for business loans is as follows:

	Stage 1 MNT'000	**Stage 2** MNT'000	**Stage 3** MNT'000	**Total** MNT'000
Gross carrying amount				
1 January 2023	**455,602,260**	**32,418,742**	**193,155,477**	**681,176,479**
New assets originated or purchased	243,810,810	–	19,105	243,829,915
Payments and assets derecognised	(325,542,513)	(10,634,102)	(31,254,633)	(367,431,248)
Transfer to Stage 1	22,029,852	(12,206,971)	(9,822,881)	–
Transfer to Stage 2	(24,421,275)	24,984,378	(563,103)	–
Transfer to Stage 3	(6,046,531)	(19,540,118)	25,586,649	–
Accrued interest	557,341	(450,073)	(68,526)	38,742
Foreign exchange and other adjustments	836,726	(376,845)	(832,665)	(372,784)
At 31 December 2023	**366,826,670**	**14,195,011**	**176,219,423**	**557,241,104**
Allowance for ECL				
1 January 2023	**1,356,917**	**2,975,995**	**153,442,314**	**157,775,226**
New assets originated or purchased	1,219,054	–	19,105	1,238,159
Payments and assets derecognised	(1,627,713)	(392,521)	(25,250,025)	(27,270,259)
Transfer to Stage 1	4,615,624	(549,314)	(4,066,310)	–
Transfer to Stage 2	(1,098,958)	1,361,635	(262,677)	–
Transfer to Stage 3	(1,798,983)	(3,911,373)	5,710,356	–
Impact on ECL on transfers	5,355,978	263,007	25,315,162	30,934,147
Changes to assumptions	8,549,058	1,410,226	(22,228,531)	(12,269,247)
Charge for the year	**15,214,060**	**(1,818,340)**	**(20,762,920)**	**(7,367,200)**
Foreign exchange and other adjustments	–	–	(29,008)	(29,008)
At 31 December 2023	**16,570,977**	**1,157,655**	**132,650,386**	**150,379,018**

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D.)

Impairment allowance for loans and advances to customers (cont'd.)

Business loans (cont'd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount				
1 January 2022	**666,224,763**	**31,487,382**	**190,659,037**	**888,371,182**
New assets originated or purchased	107,133,218	900,000	2,800,000	110,833,218
Payments and assets derecognised	(272,621,601)	(7,715,190)	(35,268,401)	(315,605,192)
Transfer to Stage 1	11,304,440	(6,319,155)	(4,985,285)	–
Transfer to Stage 2	(61,878,743)	61,878,743	–	–
Transfer to Stage 3	(3,999,272)	(37,316,058)	41,315,330	–
Accrued interest	(824,830)	212,188	(175,322)	(787,964)
Amounts written off	–	–	(2,503)	(2,503)
Foreign exchange and other adjustments	10,264,285	(10,709,168)	(1,187,379)	(1,632,262)
At 31 December 2022	**455,602,260**	**32,418,742**	**193,155,477**	**681,176,479**
Allowance for ECL				
1 January 2022	**1,484,617**	**5,367,002**	**150,829,668**	**157,681,287**
New assets originated or purchased	535,667	45,000	2,800,000	3,380,667
Payments and assets derecognised	(1,363,108)	(385,759)	(32,355,602)	(34,104,469)
Transfer to Stage 1	3,014,762	(284,362)	(2,730,400)	–
Transfer to Stage 2	(2,784,543)	2,784,543	–	–
Transfer to Stage 3	(3,079,275)	(7,463,212)	10,542,487	–
Impact on ECL on transfers	3,014,762	2,215,820	28,819,251	34,049,833
Changes to assumptions	534,035	696,963	(5,261,806)	(4,030,808)
Charge for the year	**(127,700)**	**(2,391,007)**	**1,813,930**	**(704,777)**
Amounts written off	–	–	(2,504)	(2,504)
Foreign exchange and other adjustments	–	–	801,220	801,220
At 31 December 2022	**1,356,917**	**2,975,995**	**153,442,314**	**157,775,226**

Mortgage loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach is set out in Note 33.

Mortgage loans **31 December 2023** Internal rating grade	**12 month PD range**	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
Excellent	0.26% - 5.41%	269,195,148	678,851	–	269,873,999
Good	0.28% - 5.62%	–	2,795,707	–	2,795,707
Substandard	100%	–	–	502,314	502,314
Doubtful	100%	–	–	2,391,897	2,391,897
Bad	100%	–	–	6,333,105	6,333,105
Total		**269,195,148**	**3,474,558**	**9,227,316**	**281,897,022**

31 December 2022 Internal rating grade		**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
Excellent	0.06% - 8.97%	251,220,775	366,110	–	251,586,885
Good	0.07% - 8.83%	–	803,843	–	803,843
Substandard	100%	–	–	245,799	245,799
Doubtful	100%	–	–	168,832	168,832
Bad	100%	–	–	7,901,203	7,901,203
Total		**251,220,775**	**1,169,953**	**8,315,834**	**260,706,562**

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D.)

Impairment allowance for loans and advances to customers (cont'd.)

Mortgage loans (cont'd.)

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for mortgage loans is as follows:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount				
1 January 2023	251,220,775	1,169,953	8,315,834	260,706,562
New assets originated or purchased	63,155,343	-	-	63,155,343
Payments and assets derecognised	(38,575,758)	(963,817)	(1,415,210)	(40,954,785)
Transfer to Stage 1	8,227,813	(6,648,136)	(1,579,677)	-
Transfer to Stage 2	(13,346,067)	13,628,064	(281,997)	-
Transfer to Stage 3	(130,045)	(4,603,395)	4,733,440	-
Accrued interest	15,676,603	69,923	9,510	15,756,036
Foreign exchange and other adjustments	(17,033,516)	821,966	(554,584)	(16,766,134)
At 31 December 2023	**269,195,148**	**3,474,558**	**9,227,316**	**281,897,022**
Allowance for ECL				
1 January 2023	583,864	32,512	8,006,424	8,622,800
New assets originated or purchased	486,022	-	-	486,022
Payments and assets derecognised	(192,879)	(37,740)	(1,047,453)	(1,278,072)
Transfer to Stage 1	1,433,623	(299,166)	(1,134,457)	-
Transfer to Stage 2	(600,573)	868,471	(267,898)	-
Transfer to Stage 3	(129,395)	(1,125,450)	1,254,845	-
Impact on ECL on transfers	1,231,287	270,138	(795,731)	705,694
Changes to assumptions	2,086,190	575,640	1,678,054	4,339,884
Charge for the year	**4,314,275**	**251,893**	**(312,640)**	**4,253,528**
Foreign exchange and other adjustments	30	-	993	1,023
At 31 December 2023	**4,898,169**	**284,405**	**7,694,777**	**12,877,351**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount				
1 January 2022	183,943,995	396,573	10,148,257	194,488,825
New assets originated or purchased	57,444,662	-	-	57,444,662
Payments and assets derecognised	(21,844,781)	(83,836)	(2,352,187)	(24,280,804)
Transfer to Stage 1	1,028,398	(360,584)	(667,814)	-
Transfer to Stage 2	(1,281,992)	1,281,992	-	-
Transfer to Stage 3	-	(285,336)	285,336	-
Accrued interest	15,481	4,450	(257)	19,674
Foreign exchange and other adjustments	31,915,012	216,694	902,499	33,034,205
At 31 December 2022	**251,220,775**	**1,169,953**	**8,315,834**	**260,706,562**
Allowance for ECL				
1 January 2022	523,245	73,047	9,234,992	9,831,284
New assets originated or purchased	286,172	-	-	286,172
Payments and assets derecognised	(109,224)	(4,192)	(2,316,444)	(2,429,860)
Transfer to Stage 1	446,217	(16,226)	(429,991)	-
Transfer to Stage 2	(57,689)	57,689	-	-
Transfer to Stage 3	-	(57,067)	57,067	-
Impact on ECL on transfers	446,217	25,237	398,687	870,141
Changes to assumptions	(978,854)	(45,976)	1,045,828	20,998
Charge for the year	**32,839**	**(40,535)**	**(1,244,853)**	**(1,252,549)**
Foreign exchange and other adjustments	27,780	-	16,285	44,065
At 31 December 2022	**583,864**	**32,512**	**8,006,424**	**8,622,800**

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D.)

Impairment allowance for loans and advances to customers (cont'd.)

Consumer loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach is set out in Note 33.

Consumer loans **31 December 2023** Internal rating grade	**12 month** **PD range**	**Stage 1** **MNT'000**	**Stage 2** **MNT'000**	**Stage 3** **MNT'000**	**Total** **MNT'000**
Excellent	0.02% - 7.11%	836,887,021	107,753	–	836,994,774
Good	0.06% - 9.89%	–	4,370,315	5,000	4,375,315
Substandard	100%	–	–	1,817,772	1,817,772
Doubtful	100%	–	–	2,846,089	2,846,089
Bad	100%	–	–	17,463,835	17,463,835
Total		**836,887,021**	**4,478,068**	**22,132,696**	**863,497,785**

31 December 2022 Internal rating grade		**Stage 1** **MNT'000**	**Stage 2** **MNT'000**	**Stage 3** **MNT'000**	**Total** **MNT'000**
Excellent	0.02% - 8.75%	600,716,138	81,513	–	600,797,651
Good	0.05% - 7.84%	–	4,202,543	590	4,203,133
Substandard	100%	–	–	3,673,958	3,673,958
Doubtful	100%	–	–	4,033,229	4,033,229
Bad	100%	–	–	20,197,311	20,197,311
Total		**600,716,138**	**4,284,056**	**27,905,088**	**632,905,282**

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for consumer loans is as follows:

	Stage 1 **MNT'000**	**Stage 2** **MNT'000**	**Stage 3** **MNT'000**	**Total** **MNT'000**
Gross carrying amount				
1 January 2023	600,716,138	4,284,056	27,905,088	632,905,282
New assets originated or purchased	1,707,827,088	205,005	96,772	1,708,128,865
Payments and assets derecognised	(1,463,373,812)	(5,462,336)	(10,717,400)	(1,479,553,548)
Transfer to Stage 1	16,602,497	(13,998,308)	(2,604,189)	-
Transfer to Stage 2	(27,355,543)	27,377,059	(21,516)	-
Transfer to Stage 3	(672,007)	(7,480,606)	8,152,613	-
Accrued interest	(11,372,368)	(44,582)	(25,393)	(11,442,343)
Amounts written off	-	-	(27,787)	(27,787)
Foreign exchange and other adjustments	14,515,028	(402,220)	(625,492)	13,487,316
At 31 December 2023	**836,887,021**	**4,478,068**	**22,132,696**	**863,497,785**
Allowance for ECL				
1 January 2023	279,328	490,820	21,910,742	22,680,890
New assets originated or purchased	8,537,226	5,135	20,663	8,563,024
Payments and assets derecognised	(7,316,869)	(246,816)	(7,844,497)	(15,408,182)
Transfer to Stage 1	1,932,774	(629,924)	(1,302,850)	-
Transfer to Stage 2	(1,231,000)	1,236,752	(5,752)	-
Transfer to Stage 3	(290,535)	(1,509,243)	1,799,778	-
Impact on ECL on transfers	1,932,774	(23,096)	2,928,434	4,838,112
Changes to assumptions	(912,924)	953,977	361,207	402,260
Charge for the year	**2,651,446**	**(213,215)**	**(4,043,017)**	**(1,604,786)**
Amounts written off	-	-	(27,787)	(27,787)
Foreign exchange and other adjustments	66	-	3,417	3,483
At 31 December 2023	**2,930,840**	**277,605**	**17,843,355**	**21,051,800**

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D.)

Impairment allowance for loans and advances to customers (cont'd.)

Consumer loans (cont'd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount				
1 January 2022	764,724,493	3,594,739	32,256,805	800,576,037
New assets originated or purchased	1,311,778,545	110,685	311,910	1,312,201,140
Payments and assets derecognised	(1,443,041,923)	(6,998,360)	(10,504,239)	(1,460,544,522)
Transfer to Stage 1	21,106,775	(17,267,947)	(3,838,828)	-
Transfer to Stage 2	(36,577,519)	36,616,997	(39,478)	-
Transfer to Stage 3	(96,499)	(11,567,678)	11,664,177	-
Accrued interest	946,346	(19,171)	(7,779)	919,396
Amounts written off	-	-	(109,364)	(109,364)
Foreign exchange and other adjustments	(18,124,080)	(106,253)	(1,907,072)	(20,137,405)
At 31 December 2022	**600,716,138**	**4,284,056**	**27,905,088**	**632,905,282**
Allowance for ECL				
1 January 2022	622,764	969,281	23,619,299	25,211,344
New assets originated or purchased	6,556,147	4,646	127,062	6,687,855
Payments and assets derecognised	(7,215,210)	(339,685)	(6,979,564)	(14,534,459)
Transfer to Stage 1	2,843,610	(777,057)	(2,066,553)	-
Transfer to Stage 2	(1,645,988)	1,658,686	(12,698)	-
Transfer to Stage 3	(60,149)	(2,330,942)	2,391,091	-
Impact on ECL on transfers	2,843,611	104,571	3,981,507	6,929,689
Changes to assumptions	(3,694,103)	1,201,320	920,773	(1,572,010)
Charge for the year	**(372,082)**	**(478,461)**	**(1,638,382)**	**(2,488,925)**
Amounts written off	-	-	(109,364)	(109,364)
Foreign exchange and other adjustments	28,646	-	39,189	67,835
At 31 December 2022	**279,328**	**490,820**	**21,910,742**	**22,680,890**

Agricultural loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach is set out in Note 33.

31 December 2023 Internal rating grade	**12 month PD range**	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
Excellent	0.02% - 6.85%	611,149,402	15,161	–	611,164,563
Good	0.02% - 6.85%	–	3,874,469	–	3,874,469
Substandard	100%	–	–	1,107,020	1,107,020
Doubtful	100%	–	–	1,334,721	1,334,721
Bad	100%	–	–	2,712,677	2,712,677
Total		**611,149,402**	**3,889,630**	**5,154,418**	**620,193,450**

31 December 2022 Internal rating grade		**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
Excellent	0% - 9.18%	366,016,270	–	–	366,016,270
Good	0% - 9.18%	–	3,191,769	–	3,191,769
Substandard	100%	–	–	1,663,465	1,663,465
Doubtful	100%	–	–	1,337,949	1,337,949
Bad	100%	–	–	1,163,778	1,163,778
Total		**366,016,270**	**3,191,769**	**4,165,192**	**373,373,231**

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D.)

Impairment allowance for loans and advances to customers (cont'd.)

Agricultural loans (cont'd.)

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for agricultural loans is as follows:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount				
1 January 2023	366,016,270	3,191,769	4,165,192	373,373,231
New assets originated or purchased	605,132,508	38,860	-	605,171,368
Payments and assets derecognised	(365,346,081)	(3,845,720)	(2,960,091)	(372,151,892)
Transfer to Stage 1	8,609,196	(8,170,537)	(438,659)	-
Transfer to Stage 2	(16,856,117)	16,856,117	-	-
Transfer to Stage 3	-	(4,403,553)	4,403,553	-
Accrued interest	15,435,750	12,738	(20,157)	15,428,331
Foreign exchange and other adjustments	(1,842,124)	209,956	4,580	(1,627,588)
At 31 December 2023	**611,149,402**	**3,889,630**	**5,154,418**	**620,193,450**
Allowance for ECL				
1 January 2023	26,199	198,387	1,971,079	2,195,665
New assets originated or purchased	3,025,663	1,769	-	3,027,432
Payments and assets derecognised	(1,826,730)	(189,514)	(1,652,278)	(3,668,522)
Transfer to Stage 1	486,239	(367,674)	(118,565)	-
Transfer to Stage 2	(758,525)	758,525	-	-
Transfer to Stage 3	-	(880,711)	880,711	-
Impact on ECL on transfers	486,239	23,177	2,749,316	3,258,732
Changes to assumptions	(455,140)	688,655	(1,271,487)	(1,037,972)
Charge for the year	**957,746**	**34,227**	**587,697**	**1,579,670**
At 31 December 2023	**983,945**	**232,614**	**2,558,776**	**3,775,335**

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
Gross carrying amount				
1 January 2022	379,703,869	255,510	1,201,073	381,160,452
New assets originated or purchased	308,373,200	-	-	308,373,200
Payments and assets derecognised	(309,508,752)	(3,501,499)	(1,080,244)	(314,090,495)
Transfer to Stage 1	7,736,296	(7,467,550)	(268,746)	-
Transfer to Stage 2	(17,392,204)	17,392,204	-	-
Transfer to Stage 3	-	(4,129,598)	4,129,598	-
Accrued interest	(3,484,858)	195,398	42,038	(3,247,422)
Amounts written off	-	-	(3,941)	(3,941)
Foreign exchange and other adjustments	588,719	447,304	145,414	1,181,437
At 31 December 2022	**366,016,270**	**3,191,769**	**4,165,192**	**373,373,231**
Allowance for ECL				
1 January 2022	26,840	11,673	581,701	620,214
New assets originated or purchased	1,541,866	-	-	1,541,866
Payments and assets derecognised	(1,547,544)	(175,075)	(482,262)	(2,204,881)
Transfer to Stage 1	415,182	(336,040)	(79,142)	-
Transfer to Stage 2	(782,649)	782,649	-	-
Transfer to Stage 3	-	(825,920)	825,920	-
Impact on ECL on transfers	415,182	110,570	1,703,522	2,229,274
Changes to assumptions	(42,678)	630,530	(574,719)	13,133
Charge for the year	**(641)**	**186,714**	**1,393,319**	**1,579,392**
Amounts written off	-	-	(3,941)	(3,941)
At 31 December 2022	**26,199**	**198,387**	**1,971,079**	**2,195,665**

16. LOANS AND ADVANCES TO CUSTOMERS (CONT'D.)

Transferred financial assets that are derecognised in their entirety

Sale of mortgage pool

During the year the Bank sold 100% of its rights of the cash flows arising on portfolios of fixed rate mortgage loans to wholly owned special purpose companies of MIK Holding JSC in exchange for Residential Mortgage Backed Securities ("RMBS"). The Bank derecognized the loan portfolios amounting to MNT 107,621 million (2022: MNT 138,369 million) and recognized Senior and Junior RMBS as financial assets amounting to MNT 96,858 million and MNT 10,763 million respectively (2022: MNT 124,532 million and MNT 13,837 million respectively). In 2023, Senior RMBS amounting to MNT 75,913 million were transferred to BoM to settle its loans due to BoM (2022: MNT 82,018 million).

Sale of SME loan pool

On 20 February 2021, the Government of Mongolia has approved a MNT 10 trillion "Economic recovery plan and citizen's health protection program". The sub program in supporting SMEs began in March 2021 and as part of the program, the Bank participated in securitisation transactions with wholly owned special purpose companies of SFC in selling SME loan pools collateralized by immovable assets with recourse. The Bank originated a total of MNT Nil (2022: MNT 1,850 million) of SME loans with an interest rate of 11.0% p.a and maturity of 2–3 years ("Repo financed loans"), in return for which the Bank received ABS. As per the amendment made to the General repurchase agreement dated on 28 November 2022, Banks are no longer be obliged to replace the non–performing loans to SFC. The assets that does qualify for derecognition amounted to MNT 743.5 million (2022: MNT 6,246 million). The Bank recognized the Senior ABS and Junior ABS received as financial assets bearing an interest rate of 9.5% p.a with a maturity of up to 3 years (see Note 17).

Loans and advances to customers at FVTPL

The Bank holds mortgage portfolio of loans and advances to customers to be sold to MIK amounting to MNT 112,559 million (2022: MNT 111,739 million).

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 MNT'000	2022 MNT'000
Financial assets held for trading:		
Quoted equities at fair value	10,721,359	9,876,322
Unquoted corporate bonds	1,020,411	1,020,411
	11,741,770	**10,896,733**
Financial assets at fair value through profit or loss:		
Junior RMBS	73,356,041	62,065,399
Senior RMBS	77,375,115	61,218,970
Junior ABS	925,034	1,638,404
Senior ABS	1,085,306	–
Senior ABS pledged as collateral	9,341	3,080,174
	152,750,837	**128,002,947**

Quoted equities represent investments in equity shares quoted on the Mongolia Stock Exchange.

Unquoted corporate bonds represent securities purchased from unquoted private companies

The bank has sold fixed rate mortgage loans to wholly owned special purpose companies of MIK Holding JSC and received Senior and Junior "RMBS" are interest-bearing long-term securities issued by MIK Holding JSC in exchange. Junior "RMBS" are interest-bearing long-term securities issued by MIK Holding JSC which per the Securities Law of Mongolia, are required to be held by commercial banks for at least 3 years.

Asset backed securities ("ABS") represent Senior and Junior tranches of an interest-bearing, long-term securities issued by wholly owned special purpose companies of Securities Financing Corporation LLC ("SFC"). The bank transferred fixed rate repurchase financed business loans to SFC with recourse and received the ABSs in exchange.

18. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 MNT'000	2022 MNT'000
Debt instruments measured at FVOCI:		
Unquoted BoM treasury bills	530,879,214	517,515,755
Unquoted BoM treasury bills pledged as collateral****	497,275,431	250,771,751
Quoted government bonds at fair value	176,348	55,817,874
Quoted government bonds at fair value pledged as collateral*	182,906,839	133,666,349
	1,211,237,832	**957,771,729**
Equity instruments measured at FVOCI		
Unquoted equities at cost**	**121,038**	**120,466**
Debt instruments measured at amortised cost		
Quoted government bonds***	**10,237,465**	**68,223,496**

* On 21 August 2023 and 8 September 2023, the Bank has made one year repo agreement with FCC Securities B.V in Netherland and obtained USD 23 million and USD 7 million loans each with 3.8%+USD SOFR interest per annum. As per agreement the bank has pledged its Quoted government bonds at fair value with nominal amount of USD 52.7 million.

** Unquoted equities represent investments made in unquoted companies. Investments in unquoted equities are recorded at cost as management determined the fair value cannot be measured reliably. The variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be insignificant. There is no market for these investments and the Bank does not intend to dispose of these investments in the foreseeable future.

*** Quoted government bonds at amortised cost represent Erdenes Tavan Tolgoi JSC's quoted bond with term of 10% annual interest and matures in 2024. Nominal values of bonds are MNT 10.0 billion.

**** Unquoted BoM treasury bills pledged as collateral represent collaterals for the repurchase agreement made with Golomt Bank (Note 26).

Impairment losses on financial investments subject to impairment assessment

Debt instrument measured at FVOCI and AC

The table below shows the fair value of the Bank's debt instrument measured at FVOCI and AC by credit risk, based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system and impairment assessment and measurement approach are explained in Note 33.

31 December 2023	**12 month PD range**	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
Internal rating grade					
AA to A rated	0.002– 0.022%	–	–	–	–
Baa-Ba	0.108– 0.519%	–	–	–	–
B	2.52% – 2.75%	1,221,475,297	–	–	1,221,475,297
Caa-C	12.00%	–	–	–	–
Not rated	–	–	–	–	–
Total		**1,221,475,297**	**–**	**–**	**1,221,475,297**

31 December 2022	**12 month PD range**	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
Internal rating grade					
AAA-A	0.002– 0.022%	–	–	–	–
Baa-Ba	0.108– 0.519%	–	–	–	–
B	2.37% – 2.71%	1,025,995,225	–	–	1,025,995,225
Caa-C	12.00%	–	–	–	–
Not rated	–	–	–	–	–
Total		**1,025,995,225**	**–**	**–**	**1,025,995,225**

18. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D.)

Impairment losses on financial investments subject to impairment assessment (cont'd.)

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

	Debt instruments measured at FVOCI		Debt instruments measured at AC	
31 December 2023	**Fair value**	**ECL**	**Gross carrying amount**	**ECL**
	MNT'000	**MNT'000**	**MNT'000**	**MNT'000**
As at 1 January 2023	957,771,729	1,231,296	68,686,711	463,215
New assets originated or purchased	10,629,877,263	653,469	6	–
Payments and assets derecognised	(10,391,523,942)	(378,909)	(57,005,169)	(346,529)
Changes in fair value (Note 30)	16,658,856	–	–	–
Accrued interest	43,553	–	(1,327,397)	–
Foreign exchange adjustments	(1,589,627)	–	–	–
As at 31 December 2023	**1,211,237,832**	**1,505,856**	**10,354,151**	**116,686**
31 December 2022				
As at 1 January 2022	967,315,767	1,014,264	69,021,211	1,234,614
New assets originated or purchased	23,364,579,802	529,871	–	–
Payments and assets derecognised	(23,387,869,455)	(312,839)	(2,015,322)	(771,399)
Changes in fair value (Note 30)	(16,498,436)	–	–	–
Accrued interest	611,837	–	1,680,822	–
Foreign exchange adjustments	29,632,214	–	–	–
As at 31 December 2022	**957,771,729**	**1,231,296**	**68,686,711**	**463,215**

19. OTHER ASSETS

	2023	**2022**
	MNT'000	**MNT'000**
Other financial assets		
Promissory notes	–	6,236,601
Other receivables	7,291,460	14,401,162
Less: Allowance for impairment	(6,744,708)	(12,621,477)
	546,752	**8,016,286**
Other non-financial assets		
Repossessed collaterals	18,086,694	15,014,328
Less: Allowance for impairment	(14,425,166)	(13,685,082)
	3,661,528	**1,329,246**
Consumables and other office supplies	5,333,767	3,380,201
Prepaid expenses	36,172,735	1,788,638
Deferred tax asset (Note 12)	–	3,765,436
	41,506,502	**8,934,276**
Total other assets	**45,714,781**	**18,279,807**
Impairment allowance on other financial assets		
At 1 January	12,621,477	13,482,505
Charge for the year	1,179,175	533,093
Reversal	(6,282,755)	(1,399,915)
Net reversal for the period (Note 10)	(5,103,580)	(866,822)
Write-off	(772,505)	–
Foreign exchange difference	(684)	5,794
At 31 December	**6,744,708**	**12,621,477**

19. OTHER ASSETS (CONT'D.)

	2023 MNT'000	2022 MNT'000
Repossessed collaterals		
At 1 January	15,014,328	19,111,533
Additions	668,453	8,296,138
Transfer from asset held for sale (Note 20)	12,845,922	1,389,971
Less: Sold during the year	(9,772,118)	(3,753,813)
Less: Transfer to loans and advances to customers	(1,438)	–
Less: Transfer to asset held for sale (Note 20)	(668,453)	(9,947,881)
Less: Write-off	–	(81,620)
	18,086,694	**15,014,328**
Less: Allowances for impairment losses	(14,425,166)	(13,685,082)
At end of the year	**3,661,528**	**1,329,246**
Impairment allowance on other non-financial assets		
At 1 January	13,685,082	9,124,811
Net charge for the period (Note 9)	740,084	4,641,891
Write-off	–	(81,620)
At 31 December	**14,425,166**	**13,685,082**

Repossessed collaterals 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. Allowance for other non-financial assets relate to those repossessed collaterals.

20. ASSETS HELD FOR SALE

	2023 MNT'000	2022 MNT'000
Buildings and real estate		
At 1 January	12,894,113	6,762,299
Additions	–	5,237,771
Transfer from repossessed collaterals (Note 19)	668,453	9,947,881
Less: Sold during the year	(48,191)	(7,663,867)
Less: Transfer to repossessed collaterals (Note 19)	(12,845,922)	(1,389,971)
At 31 December	**668,453**	**12,894,113**

21. INVESTMENT PROPERTY

	2023 MNT'000	2022 MNT'000
At 1 January	2,848,500	2,364,878
Gain on revaluation (Note 9)	–	483,622
Less: loss on revaluation (Note 30)	(616,500)	–
At 31 December	**2,232,000**	**2,848,500**

22. PROPERTY AND EQUIPMENT

	Buildings	Computer hardware	Office furniture and equipment	Motor vehicles	Construction in-progress	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At cost/valuation						
At 1 January 2022	83,244,695	39,528,667	39,644,855	8,454,280	2,924,654	173,797,151
Additions	–	9,584,278	3,183,463	90,000	2,755,702	15,613,443
Write-off	(239,352)	(2,016,825)	(1,690,927)	–	–	(3,947,104)
Transfer from CIP	1,880,078	–	–		(1,880,078)	–
Reclassification	–	(955,703)	955,703	–	(78,266)	(78,266)
At 31 December 2022	**84,885,421**	**46,140,417**	**42,093,094**	**8,544,280**	**3,722,012**	**185,385,224**
Additions	–	7,855,727	10,370,443	2,917,500	9,157,660	30,301,330
Write-off	–	(1,633,257)	(795,791)	(952,825)	–	(3,381,873)
Disposal	–	–	–	–	(39,601)	(39,601)
Gain on revaluation*	22,354,538	–	–	–	–	22,354,538
Transfer from intangible assets (Note 23)	1,000,906	–	–	–	–	1,000,906
Revaluation**	(8,133,891)	–	–	–	–	(8,133,891)
Transfer from CIP	5,680,918	–	–	–	(5,680,918)	–
Reclassification	–	(42,762)	42,762	–	–	–
At 31 December 2023	**105,787,892**	**52,320,125**	**51,710,508**	**10,508,955**	**7,159,153**	**227,486,633**
Accumulated depreciation						
At 1 January 2022	4,633,213	29,809,096	17,591,992	5,844,220	–	57,878,521
Charge for the year (Note 11)	1,741,071	7,393,290	3,513,371	535,649	–	13,183,381
Write-off	(15,451)	(2,016,825)	(1,690,926)	–	–	(3,723,202)
Disposal	–	–	–	–	–	–
At 31 December 2022	**6,358,833**	**35,185,561**	**19,414,437**	**6,379,869**	**–**	**67,338,700**
Charge for the year (Note 11)	1,775,058	9,395,290	3,881,325	482,900	–	15,534,573
Revaluation**	(8,133,891)	–	–	–	–	(8,133,891)
Write-off	–	(1,633,257)	(795,791)	(950,317)	–	(3,379,365)
At 31 December 2023	**–**	**42,947,594**	**22,499,971**	**5,912,452**	**–**	**71,360,017**
Net book value						
At 31 December 2023	105,787,892	9,372,531	29,210,537	4,596,503	7,159,153	156,126,616
At 31 December 2022	78,526,588	10,954,856	22,678,657	2,164,411	3,722,012	118,046,524

*Included in gain on revaluation is an amount credited to other comprehensive income of MNT'000 20,405,154 (Note 30) and reversal of previously impaired properties of MNT'000 1,949,384 (Note 9).

**This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the grosscarrying amount of the revalued asset.

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 62,009 million (2022: MNT 55,939 million)

23. INTANGIBLE ASSETS

	Computer software MNT'000	Licenses MNT'000	Land use rights MNT'000	Total MNT'000
At cost/valuation				
At 1 January 2022	3,197,809	9,314,377	1,071,939	13,584,125
Additions	832,700	243,548	–	1,076,248
Write-off	–	(18,075)	–	(18,075)
At 31 December 2022	**4,030,509**	**9,539,850**	**1,071,939**	**14,642,298**
Additions	352,000	2,838,930	–	3,190,930
Transfer to property and equipment (Note 22)	–	–	(1,000,906)	(1,000,906)
Write-off	(748,641)	(391,545)	–	(1,140,186)
At 31 December 2023	**3,633,868**	**11,987,235**	**71,033**	**15,692,136**
Accumulated amortisation				
At 1 January 2022	2,968,455	4,984,895	–	7,953,350
Charge for the year (Note 11)	83,199	683,242	–	766,441
Write-off	–	(18,075)	–	(18,075)
At 31 December 2022	**3,051,654**	**5,650,062**	–	**8,701,716**
Charge for the year (Note 11)	160,637	1,181,305	–	1,341,942
Write-off	(748,641)	(391,545)	–	(1,140,186)
At 31 December 2023	**2,463,650**	**6,439,822**	–	**8,903,472**
Net book value				
At 31 December 2023	1,170,218	5,547,413	71,033	6,788,664
At 31 December 2022	978,855	3,889,788	1,071,939	5,940,582

24. 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 three 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 garages and ATM spaces with lease terms of 12 months or less and includes rental costs in South Korea with a high probability of termination, and non-recurring rental costs for low-cost leases. The Bank applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions 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	**53,279**	**234,557**
Additions	–	–
Charge for the year (Note 11)	(32,706)	–
Accretion of interest (Note 6)	–	7,572
Lease payments	–	(44,999)
As at 31 December 2022	**20,573**	**197,130**
Additions	12,394,699	12,394,699
Charge for the year (Note 11)	(4,152,139)	–
Accretion of interest (Note 6)	–	1,548,265
Lease payments	–	(5,283,159)
As at 31 December 2023	**8,263,133**	**8,856,935**

The maturity analysis of lease liabilities are disclosed in Note 36.

The Bank recognised rent expense from short-term leases of MNT 209,535 thousand and low-value assets of MNT 456,613 thousand for the year ended 31 December 2023 (2022: MNT 286,213 thousand and MNT 404,760 thousand, respectively).

25. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2023 MNT'000	2022 MNT'000
Current accounts from banks and financial institutions	66,717,265	41,998,833
Demand deposits from banks and financial institutions	–	–
Time deposits from banks and financial institutions	277,955,109	273,534,258
	344,672,374	**315,533,091**

At 31 December 2023, due to banks included current accounts and time deposits from local and foreign banks and other financial institutions. As of 31 December 2023, term deposit interest rate ranges between 2.6% to 15.8% per annum with maturity of 7 to 547 days. At 31 December 2023, term deposits denominated in USD with interest rate of 2.6% to 5.5% per annum (2022: 1% to 4.5%) with 31 to 730 days to maturity (2022: 3 to 547 days) while MNT term deposits interest rate ranges between 7.72% to 15.8% (2022: 8% to 14.5%) with maturity of 30 to 540 days (2022: 31 to 730 days).

26. REPURCHASE AGREEMENTS

During its normal course of business, the Bank borrows and lends securities and may also sell securities under agreements to repurchase (repos) and purchase securities under agreements to resell (reverse repos).

Securities lent and repo arrangements

The following table summarises the liability arising from the consideration received, including accrued interest within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank:

	2023 MNT'000	2022 MNT'000
Bank of Mongolia	7,099	253,049,417
Golomt Bank	497,224,863	–
FCC Securities B.V	103,278,215	80,180,796
	600,510,177	**333,230,213**

On 21 August 2023 and 8 September 2023, the Bank has made one year repo agreement with FCC Securities B.V in Netherland and obtained USD 23 million and USD 7 million loan which bears 3.8%+USD SOFR interest per annum. According to the agreement with FCC Securities B.V., the Bank received USD with the condition of buying back government bonds. A long-term repo agreement amounting MNT 6.1 million was made with the Bank of Mongolia, while a repo agreement of MNT 496.7 billion was made with Golomt Bank with the condition of buying back BoM bills.

27. DUE TO CUSTOMERS

	2023 MNT'000	2022 MNT'000
Government deposits		
- Current accounts	836,361,518	464,183,811
- Time deposits	31,884,290	21,747,047
Private sector deposits		
- Current accounts	211,010,650	108,807,545
- Demand deposits	–	110,871
- Time deposits	121,542,977	60,377,487
- Guarantee fund	9,960,240	7,665,224
Individual deposits		
- Current accounts	273,534,228	238,690,526
- Demand deposits	281,952,447	250,275,006
- Time deposits	1,660,578,917	1,597,502,996
	3,426,825,267	**2,749,360,513**

28. BORROWED FUNDS

	2023 MNT'000	2022 MNT'000
Borrowed funds from non-government organizations		
Mongolian Mortgage Corporation JSC	208,961	298,309
Cargill Financial Services International	191,914,299	–
	192,123,260	**298,309**
Borrowed funds from government organizations		
Bank of Mongolia	60,792,022	81,207,286
Ministry of Finance	48,017,680	53,910,044
Ministry of Finance/Japan Bank for International Cooperation	18,426,134	21,442,253
Credit guarantee fund of Mongolia/Asian Development Bank	14,407,602	16,543,152
Labor Service Center/Center for Employment Service	14,479,033	18,432,365
SME Development Fund	616,337	1,131,428
Others	4,538,160	41,969,300
	161,276,968	**234,635,828**
Total borrowed funds	**353,400,228**	**234,934,137**

All borrowings are unsecured.

Most 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 tier 1 capital 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 case of non-compliance with covenants e.g., if the Bank defaults, a borrowing becomes immediately payable on demand. For this reason, the Bank monitors compliance with the BoM prudential ratios and other debt covenants on a monthly basis through the Planning and Analysis Division. The Finance Department compares the Bank's performance results against ratio requirements and presents the result to the Asset and Liability Committee. As of 31 December 2023 and 2022, the Bank has no breach of covenants that would require immediate repayment of the borrowings.

29. OTHER LIABILITIES

	2023 MNT'000	2022 MNT'000
Payables and accrued expenses	23,048,926	14,751,755
Delay on clearing settlement	14,705,135	11,556,879
Impairment allowance on off-balance exposures (Note 32)	740,355	–
Other	78,854	51,846
	38,573,270	**26,360,480**

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

30. SHARE CAPITAL, EARNING PER SHARE, OTHER RESERVES AND DIVIDENDS

30.1 Share Capital

	Number of shares authorized, issued and fully paid of MNT 250 each		Amount	
	2023	2022	2023 MNT'000	2022 MNT'000
Ordinary shares	755,096,250	755,096,250	188,774,063	188,774,063

As of 31 December 2023, the Bank has registered, issued, circulating and authorized capital of MNT 188,774,063 thousand (2022: 188,774,063). According to the Bank's charter, the share consists of 755,096,250 ordinary shares at a par value of MNT 250 (2022: MNT 250).

At per the Shareholder's resolution of 30 June 2022, Bank conducted a share split of its ordinary shares at a ratio of 1:4000 and offered an additional 43,096,250 shares to the public. Thus, the number of ordinary shares increased from 178,000 to 755,096,250 shares and the nominal value of one ordinary share was changed from MNT 1,000,000 to MNT 250.

Bank became listed at MSE on 30 September 2023.

30.2 Earnings per share

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

Earnings per share are calculated as follows:

	2023 MNT'000	2022 MNT'000
Profit for the year attributable to ordinary equity holders	94,769,103	97,294,843

	2023	2022
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	755,096,250	722,892,459
	755,096,250	722,892,459

Earnings per share

	2023 MNT'000	2022 MNT'000
Equity holders of the Bank for the period:		
Basic earnings per share	125.51	134.59
Diluted earnings per share	125.51	134.59

30.3 Share premium

	2023 MNT'000	2022 MNT'000
Additional paid in capital	14,652,725	14,652,725

30. SHARE CAPITAL, EARNING PER SHARE, OTHER RESERVES AND DIVIDENDS

30.4 Other reserves and dividends

Other reserves	Social development fund MNT'000	Other reserves MNT'000	FVOCI reserve MNT'000	Asset revaluation reserve MNT'000	Total other reserves MNT'000
At 1 January	728,854	693,669	(9,793,416)	22,586,672	14,215,779
Utilisation of Social development fund	(32,557)	–	–	–	(32,557)
Revaluation of property and equipment	–	–	–	20,405,154	20,405,154
Revaluation of investment property	–	–	–	(616,500)	(616,500)
Transfer to/(from) regulatory reserve*	–	20,150,706	–	–	20,150,706
Net change in fair value of debt instruments at FVOCI (Note 18)	–	–	16,658,856	–	16,658,856
Net changes in allowance for expected credit losses on debt instruments at FVOCI (Note 10)	–	–	274,560	–	274,560
Deferred tax recognized in OCI (Note 12)	–	–	(4,233,355)	–	(4,233,355)
At 31 December 2023	696,297	20,844,375	2,906,645	42,375,326	66,822,643

* As of 31 December 2023, the regulatory reserve was MNT 20,844 million (31 December 2022: 694 million). Regulatory reserve represents additional provision under BoM provisioning requirements on loans and advances to customers of MNT 17,249 million (31 December 2022: nil), on repossessed collaterals of MNT 2,901 million (31 December 2022: nil) and general reserve of MNT 694 million (31 December 2022: 694 million).

Other reserves	Social development fund MNT'000	Other reserves MNT'000	FVOCI reserve MNT'000	Asset revaluation reserve MNT'000	Total other reserves MNT'000
At 1 January 2022	766,804	693,669	5,241,714	22,666,025	29,368,212
Utilisation of Social development fund	(37,950)	–	–	–	(37,950)
Amortisation	–	–	–	(79,353)	(79,353)
Net change in fair value of debt instruments at FVOCI (Note 18)	–	–	(16,498,436)	–	(16,498,436)
Net changes in allowance for expected credit losses on debt instruments at FVOCI (Note 10)	–	–	217,032	–	217,032
Deferred tax recognized in OCI (Note 12)	–	–	1,246,274	–	1,246,274
At 31 December 2022	728,854	693,669	(9,793,416)	22,586,672	14,215,779

Dividends

According to the Board of Directors resolution dated on 17 February 2023, the Bank announced to issue dividends amounting MNT 48,084,528 thousand to the shareholders from the net profit for the year ended 31 December 2022.

31. ADDITIONAL CASHFLOW INFORMATION

	2023 MNT'000	2022 MNT'000
Cash and balances with BoM (Note 13)	1,239,867,443	726,543,239
Due from banks and financial institutions (Note 14)	273,044,084	231,538,852
Unquoted BoM treasury bills - less than three months (Note 18)	418,236,563	450,766,401
Gross carrying cash and cash equivalents amount	**1,931,148,090**	**1,408,848,492**
Less: Minimum reserve with the BoM not available to finance the Bank's day to day operations (Note 13)	(333,047,920)	(252,064,041)
Less: Placement with foreign financial institution as cash collateral in international card transaction	(1,014,547)	(958,350)
Net cash and cash equivalents	**1,597,085,623**	**1,155,826,101**

Reconciliation of the liabilities arising from financing activities is shown below:

	2023 MNT'000	2022 MNT'000
Borrowed funds		
At 1 January	234,934,137	252,376,321
Cash movement:		
New disbursement	510,332,167	611,597,875
Repayment	(392,885,768)	(636,050,626)
Interest paid	(11,728,573)	(6,456,396)
Non-cash movement:		
Interest expense during the year	15,651,501	6,714,912
Foreign exchange movement	(2,903,236)	6,752,051
At 31 December	**353,400,228**	**234,934,137**
Lease liability		
At 1 January	197,130	234,557
Non-cash additions	12,394,699	-
Interest expense during the year	1,548,265	7,572
Interest portion of the lease liabilities paid	(1,548,265)	(7,572)
Principal portion of lease liabilities paid	(3,734,894)	(37,427)
At 31 December	**8,856,935**	**197,130**

32. CONTINGENT LIABILITIES AND COMMITMENTS

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

	2023 MNT'000	2022 MNT'000
Credit related commitments and contingent liabilities		
Uncovered bank guarantees	1,216,541	3,057,910
Letters of credit	344,165	90,277
Undrawn commitments to lend	6,900,036	4,300,507
	8,460,742	**7,448,6954**
Capital related commitments		
Property and equipment	1,260,193	587,686
Total	**9,720,935**	**8,036,380**

Contingent liabilities

Guarantees 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.

32. CONTINGENT LIABILITIES AND COMMITMENTS (CONT'D)

Impairment allowance for commitments and contingent liabilities

	Commitments and contingent liabilities MNT'000
At 1 January 2023	-
Net charge for the year (Note 29)	740,355
At 31 December 2023	740,355

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.

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 adjustments to account for any adverse effects which the claims may have on its financial statements. As at 31 December 2023, there were no major litigations.

33. RISK MANAGEMENT

33.1 Introduction

The main risks inherent in the Bank's operations are credit risk, liquidity risk, interest rate risk, foreign exchange risk, operational risk, all of which are controlled by the Bank's Risk Management department, reporting directly to the Deputy Chief Executive Officer.

The primary goal of risk management is to allocate capital to business segments commensurate with their risk/reward profiles and to maximize the Bank's risk-adjusted return on capital through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

The Bank has a clearly defined risk management framework which is not designed to eliminate the risk but to optimize the risk and return trade off. The risk management framework in place is to ensure that:

(i) Individuals who manage the risks clearly understand the requirement and measurement system;
(ii) The Bank's risk exposure is within the limits established by the Board of Directors ("BOD");
(iii) The risk measured is in line with the business strategy as approved by the BOD;
(iv) The capital allocation is consistent with the risk of exposures; and
(v) The Bank's performance objectives are aligned with the risk appetite and tolerance.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk policy and credit policy which specify risk appetite and tolerances.

Board Risk Management Committee ("BRMC")

The Board Risk Management Committee assists the Board of Directors in monitoring and controlling the risk exposures of the Bank. The BRMC sets the comprehensive risk management approach and approves the risk strategies and principles that establish the objectives guiding all the Bank's activities and implement the necessary policies and procedures.

33. RISK MANAGEMENT (CONT'D.)

33.1 Introduction (cont'd.)

Risk Management Committee ("RMC")

RMC is responsible for anticipating and managing new and ongoing financial risk across business departments and maintaining appropriate limits on risk taking, adequate systems and standards for measuring operational risk, credit risk and performance, comprehensive risk reporting and management review process. Two levels of risk management committees operate at the bank: the central RMC and the branch level RMC.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the BOD and BRMC.

Executive Management Committee

The Executive Management Committee consists of all the executive management of the Bank. The Committee is responsible for developing internal guidance, policy and procedures on overall risk management, forming internal control system and ensuring uniform performance throughout the bank.

Asset and Liability Committee ("ALCO")

ALCO is responsible for providing centralized asset and liability management of the funding, and efficient management of maturity and interest rate for sustainable growth of the Bank.

The Bank's Treasury is responsible for managing its assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank. The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with them. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the BOD.

Credit committees

It is the credit decision making body of the Bank and operates within clearly defined parameters authorised by an internal policy. The committees have the following main functions:

- Review of the quality, composition and risk profile of the entire credit portfolio on an ongoing basis;
- Approval of limits of credit exposures to each sectors and geographical regions;
- Approval of credit procedures;
- Approval of credit classification and provisioning;
- Approval of credit applications.

The Risk Management Department is responsible for ensuring the management and implementation of the Bank's risk policy in all level through its divisions with specific responsibilities defined below:

Operational Risk Management Division
The operational risk management division is responsible for implementing and maintaining risk related policies and procedures to ensure an independent control processes.

The division is responsible for monitoring compliance with operational risk principles, identifying, measuring operational risk exposures and ensuring that contingent commitments are within risk management and reporting system.

Business Risk Division
The main responsibilities of credit risk management division are as follows:
(i) To conduct credit risk analysis and research;
(ii) To perform independent risk assessments for credit applications to determine the degree of credit risk involved;
(iii) To monitor loan portfolio and make recommendations to diversify loan portfolio by sectors and geographical regions;
(iv) To mitigate risk exposures of the Bank's loan portfolio using various tools.

33. RISK MANAGEMENT (CONT'D.)

33.1 Introduction (cont'd.)

Risk measurement and reporting system

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

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

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

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

Risk mitigation and risk culture

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

Risk governance and risk management strategies and systems

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

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

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

(i) The maximum amount of the overall credit exposures issued and other credit-equivalent assets to an individual creditor and his/her related persons shall not exceed 20% of the capital of the Bank.

(ii) The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed 5% of the capital for one related person to the Bank, and the aggregation of overall lending to the related persons shall not exceed 20% of the capital of the Bank.

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

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge 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 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 aims to allow the Bank to identify and assess the potential losses as a result of the risks to which it is exposed 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.

33. RISK MANAGEMENT (CONT'D.)

33.2 Credit risk

Credit-related Commitments Risks

The Bank makes available to its customers guarantees and standby letters of credit, which may require the Bank to make payments on their behalf. Such payments, if made, are collected from customers based on the terms of the particular letters of guarantee. These commitments expose the Bank to similar risk as loans; therefore, the related risks are managed by the same procedures 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:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

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

The Bank's internal rating and PD estimation process

The Bank's Business risk division and Treasury 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. When practical, they also build on information from international rating agencies, such as Moody's and/or Fitch ratings. these information sources are then used to determine the stage classification of the exposure.

The probability of default ("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. 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.

33. RISK MANAGEMENT (CONT'D.)

33.2 Credit risk (cont'd.)

The Bank's internal rating and PD estimation process (cont'd.)

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.

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 Treasury department analyses publicly available external information such the ratings of international rating agencies, e.g. Moody's, and assigns the internal rating.

Business loans

For business loans, 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 portfolio.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Bank'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.

Consumer loan, Agricultural loan and Mortgage loan

Consumer, agricultural and mortgage loans include all types of consumer loans, credit cards, agricultural loans and mortgage loans. Risk rating of these loan products and some of the small business loans is assessed by a methodology to determine the probability of overdue. 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

The credit quality of financial assets is managed by the Bank using internal credit ratings. It is the Bank's policy to maintain accurate and consistent risk grades across the credit portfolio. This facilitates the management of the applicable risks and the comparison of credit exposures across all lines of loan products. The grading system is supported by a variety of financial and statistical analytics, combined with processed portfolio and market information to provide the main inputs for the measurement of counterparty risk. All risk grades are tailored to the various loans exposures and are derived in accordance with the Bank's grading policy across all risk groupings reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The credit quality of financial assets other than loans and advances to customers are classified based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch rating.

Internal rating	Internal rating description	International rating (when applicable)
A	Excellent	AAA-A
B	Good	Baa-Ba
C	Substandard	B
D	Doubtful	Caa-C
E	Bad	–
Not rated	Not rated	–
Individually impaired	Individually impaired	–

33. RISK MANAGEMENT (CONT'D.)

33.2 Credit risk (cont'd.)

The Bank's internal rating and PD estimation process (cont'd.)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. 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.

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 exposure at the default is estimated using utilisation factor by applying to the total limit.

Loss given default

Loss given default (LGD) values are assessed annually by credit risk analysts from Business risk division. LGD represents the Bank's expectation of the extent of loss on defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposures at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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.

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

Grouping financial assets measured on a 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 top 40 Stage 3 borrowers by outstanding balance regardless of the loan portfolio, and Stage 2 borrowers with outstanding balance of more than MNT 500 million regardless of the loan portfolio.

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 loan purpose and product:

33. RISK MANAGEMENT (CONT'D.)

33.2 Credit risk (cont'd.)

The Bank's internal rating and PD estimation process (cont'd.)

- Agricultural loans
- Business loans
- Micro business loans
- Project loans
- Mortgage project loans
- Mortgage loan
- Consumer - Salary loans
- Consumer - Pension loans
- Consumer - Credit cards
- Consumer - Overdrafts
- Other consumer loans

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 analysis has revealed that the default rate of already delinquent loans has low correlation with macro-economic factors and therefore the Bank applies macro adjustment only to PD curves for current loans. The data set includes quarterly time series of main macro indicators and probability of default per loan product. Macroeconomic variables are taken from the database of the National Statistical Office, and PD rates are derived from the bank's internal database. The Bank has USD rate and Inflation rate for Mortgage loans, Loan interest rate (weighted average) and Inflation rate for Consumer loans, and USD rate and Economic growth used for Agricultural, Business and project loans, which had the highest correlation with the default rate.

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

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

31 December 2023	Business loans	Mortgage loans	Consumer loans	Agricultural loans
Bad case	1.301	1.105	1.421	1.301
Base case	0.926	1.049	0.777	0.926
Good case	0.409	0.859	0.472	0.409

31 December 2022	Business loans	Mortgage loans	Consumer loans	Agricultural loans
Bad case	1.413	1.227	1.513	1.413
Base case	1.180	0.994	1.596	1.180
Good case	0.458	0.629	0.582	0.458

Overview of modified and forborne loans

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

33. RISK MANAGEMENT (CONT'D.)

33.3 Credit risk (cont'd.)

33.4 Overview of modified and forborne loans (cont'd.)

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period.

	2023 MNT'000	2022 MNT'000
Restructured loans	32,819,180	48,102,632

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12mECL measurement during the period:

31 December 2023	Post-modification		Pre modification	
	Gross carrying amount MNT'000	Corresponding ECL MNT'000	Gross carrying amount MNT'000	Corresponding ECL MNT'000
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	-	-	18,303,145	91,516
Facilities that reverted to (Stage 2/3) LTECLs having once cured	37,226,946	19,830,279	31,082,044	16,176,603
31 December 2022				
Facilities that have cured since modification and are now measured using 12mECL (Stage 1)	-	-	29,823,347	149,117
Facilities that reverted to (Stage 2/3) LTECLs having once cured	52,721,099	24,041,413	31,813,071	10,379,658

According to the Bank's policy, modified loans will be classified as stage 2/3 upon modification.

Analysis of risk concentration

Disclosure of credit quality and maximum exposure for credit risk based on the Bank's internal credit rating system and year-end stage classification are disclosed in Notes 13, 14, 16 and 18 where relevant.

The table below shows the analysis per industry sector of the Bank's loans and advances to customers (Note 16) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

	2023 Gross maximum exposure		2022 Gross maximum exposure	
	MNT'000	%	MNT'000	%
Consumers	829,658,064	35%	662,621,692	32%
Agriculture	720,219,843	29%	479,154,752	23%
Real estate	447,474,214	18%	384,844,052	19%
Wholesale and Retail	143,896,592	6%	213,234,013	10%
Construction	61,062,305	3%	82,979,798	4%
Manufacturing	70,773,567	3%	82,158,122	4%
Other	79,333,713	3%	52,400,099	3%
Hotel and restaurants	27,160,449	1%	32,041,741	2%
Transportation and communications	17,164,887	1%	20,219,188	1%
Healthcare	12,298,768	1%	14,439,647	1%
Mining and exploration	5,661,392	0%	10,914,148	1%
Education	8,089,930	0%	8,803,740	0%
Electricity and oil	4,359,108	0%	6,086,467	0%
Financial services	4,317,963	0%	4,618,266	0%
Tourism	2,364,730	0%	3,594,026	0%
Maintenance	1,519,085	0%	1,666,391	0%
Public service	34,343	0%	124,941	0%
	2,435,388,953	**100%**	**2,059,901,083**	**100%**

33. RISK MANAGEMENT (CONT'D.)

33.2 Credit risk (cont'd.)

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. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:

- corporate lending: charges over real-estate properties, inventories, plants and equipment, machineries and vehicles;
- small business lending: charges over real estate properties and inventories;
- consumer lending: charges over automobiles and assignment of income; and charges over real estate properties;
- residential mortgages: mortgages over residential properties
- agriculture loans: insured and uninsured livestock

The Bank also obtains guarantees from parent companies for loans to their subsidiaries and personal guarantees from the main shareholders for the limited liability entities but the potential benefits are not included in the above.

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 repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Bank does not occupy repossessed properties for business use.

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

31 December 2023	Gross carrying amount MNT'000	Collateral value MNT'000
Loans and advances to customers		
Business loans	557,241,105	2,018,109,389
Mortgage loans	394,456,613	693,281,722
Consumer loans	863,497,785	345,990,389
Agricultural loans	620,193,450	1,410,482,421
Total	**2,435,388,953**	**4,467,863,921**

31 December 2022	Gross carrying amount MNT'000	Collateral value MNT'000
Loans and advances to customers		
Business loans	681,176,479	1,879,861,283
Mortgage loans	372,446,091	225,366,904
Consumer loans	632,905,282	529,877,169
Agricultural loans	373,373,231	1,184,830,958
Total	**2,059,901,083**	**3,819,936,314**

33.3 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 always holds sufficient amount of liquid assets which is much higher than the level required by the BoM. In addition, the Bank complies with the reserve requirement of 8 percent of customer's MNT deposits and 18 percent of customer's USD deposit based on an average period of two weeks.

Stress Testing

In accordance with the Bank's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Additionally, stress testing is performed for a combination of both the market and specific stress factors relating to the Bank. Liquidity mismatch reporting and stress testing results are reported regularly and reviewed by the Risk Management Committee and periodically reviewed by the Asset and Liability Committee (ALCO) and Executive Committee.

33. RISK MANAGEMENT (CONT'D.)

33.3 Liquidity risk (cont'd.)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial assets and 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.

31 December 2023	On demand	Less than 3months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
Cash and balances with BoM	1,239,717,159	–	–	–	–	–	1,239,717,159
Loans and advances to customers	133,099,543	379,587,358	460,177,488	589,544,632	1,153,912,617	390,922,416	3,107,244,054
Due from banks and other financial institutions	28,639,782	838,213,556	–	–	1,014,547	–	867,867,885
Financial assets held for trading	–	–	–	–	–	10,721,359	10,721,359
Financial assets at fair value through profit or loss	–	–	–	1,132,973	244,826	490,022,883	491,400,682
Debt instruments at fair value through other comprehensive income	–	959,631,798	68,019,834	10,049,388	187,764,274	32,410,158	1,257,875,452
Equity instruments at fair value through other comprehensive income	–	–	–	–	–	121,038	121,038
Financial assets at amortised cost	–	–	–	–	11,008,945	–	11,008,945
Derivative financial instruments	–	–	–	2,387,557	–	–	2,387,557
Other financial assets	15,169,655	–	–	–	–	–	15,169,655
Total financial assets	**1,416,626,139**	**2,177,432,712**	**528,197,322**	**603,114,550**	**1,353,945,209**	**924,197,854**	**7,003,513,786**
Due to other banks	68,098,086	209,348,626	5,944,372	48,677,125	19,405,673	–	351,473,882
Due to customers	1,590,802,023	87,286,036	156,396,341	959,201,985	368,469,740	958,224,028	4,120,380,153
Borrowed funds	–	577,934	101,806	8,424,555	328,200,256	85,143,329	422,447,880
Lease liabilities	–	–	–	–	8,856,935	–	8,856,935
Repurchase agreement	–	497,551,376	7,365	105,911,530	–	–	603,470,271
Other financial liabilities	4,804,015	46,581,771	–	–	–	–	51,385,786
Derivative financial instruments	–	–	–	6,356,764	–	–	6,356,764
Uncovered bank guarantees	1,216,541	–	–	–	–	–	1,216,541
Letters of credit	344,165	–	–	–	–	–	344,165
Undrawn commitments to lend	6,900,036	–	–	–	–	–	6,900,036
Capital related commitments	1,260,193	–	–	–	–	–	1,260,193
Total financial liabilities	**1,673,425,059**	**841,345,743**	**162,449,884**	**1,128,571,959**	**724,932,604**	**1,043,367,357**	**5,574,092,606**
Net position	**(256,798,920)**	**1,336,086,969**	**365,747,438**	**(525,457,409)**	**629,012,605**	**(119,169,503)**	**1,429,421,180**

33. RISK MANAGEMENT (CONT'D.)

33.3 Liquidity risk (cont'd.)

Analysis of financial assets and liabilities by remaining contractual maturities (cont'd.)

31 December 2022	On demand MNT'000	Less than 3months 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
Cash and balances with BoM	726,396,277	–	–	–	–	–	726,396,277
Loans and advances to customers	124,243,656	281,105,720	400,210,939	503,223,130	798,952,474	291,085,528	2,398,821,447
Due from banks and other financial institutions	230,580,502	–	–	–	958,350	–	231,538,852
Financial assets held for trading	–	–	–	–		9,876,322	9,876,322
Financial assets at fair value through profit or loss	–	197,069,026	–	–	6,806,919	404,959,317	608,835,262
Debt instruments at fair value through other comprehensive income	–	705,086,000	119,252,967	–	163,118,111	–	987,457,078
Equity instruments at fair value through other comprehensive income	–	–	–	–	–	120,466	120,466
Financial assets at amortised cost	–	–	59,877,556	–	12,009,977	–	71,887,533
Derivative financial instruments	–	–	–	15,034,433	–	–	15,034,433
Other financial assets	8,016,285	–	–	–	–	–	8,016,285
	1,089,236,720	**1,183,260,746**	**579,341,462**	**518,257,563**	**981,845,831**	**706,041,633**	**5,057,983,955**
Due to other banks	41,998,834	221,468,871	21,858,625	33,602,993	413,746	–	319,343,069
Due to customers	1,081,918,769	483,199,282	387,112,862	480,751,008	255,929,087	776,615,941	3,465,526,949
Borrowed funds	–	8,165,464	38,988,364	83,528,591	32,215,072	109,428,066	272,325,557
Lease liabilities	–	197,130	–	–	–	–	197,130
Repurchase agreement	–	244,687,466	8,715,140	82,417,048	7,335	–	335,826,989
Other financial liabilities	5,553,337	20,609,075	–	–	–	–	26,162,412
Derivative financial instruments	–	–	–	2,286,265	–	–	2,286,265
Uncovered bank guarantees	3,057,910	–	–	–	–	–	3,057,910
Letters of credit	90,277	–	–	–	–	–	90,277
Undrawn commitments to lend	4,300,507	–	–	–	–	–	4,300,507
Capital related commitments	587,686	–	–	–	–	–	587,686
Total financial liabilities	**1,137,507,320**	**978,327,288**	**456,674,991**	**682,585,905**	**288,565,240**	**886,044,007**	**4,429,704,751**
Net position	**(48,270,600)**	**204,933,458**	**122,666,471**	**(164,328,342)**	**693,280,591**	**(180,002,374)**	**628,279,204**

33. RISK MANAGEMENT (CONT'D.)

33.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates or foreign exchange rates. The Bank manages and monitors this risk element using VaR and sensitivity analyses. Except for the concentrations within foreign currencies, the Bank has no significant concentration of market risk. The market risk for the trading portfolio is managed and monitored based on a VaR methodology that reflects the interdependency between risk variables. Non–trading positions are managed and monitored using other sensitivity analyses.

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. Management has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained with the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's profit or loss. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2023 and 31 December 2022.

Currency	Change in basis points	Sensitivity of net interest income 2023 MNT'000	2022 MNT'000
EUR	+/- 120	(491)/491	(613)/613
USD	+/- 120	(3,367,279)/3,367,279	(3,394,613)/3,394,613
MNT	+/- 120	(9,024,982)/9,024,982	(5,662,113)/5,662,113
OTHER	+/- 120	(40,976)/40,976	(136,153)/136,153

Currency risk

Currency risk is the possibility of financial loss to the Bank arising from adverse movements in foreign exchange rates. The Bank's management sets limits on the level of exposure by currencies, which are monitored on a frequent basis. Apart from using foreign exchange exposure mismatch, the Bank applies Value-at-Risk ("VaR") simulation model to manage and measure foreign exchange risk. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over specified time horizon.

Objectives and limitations of the VaR Methodology

The VaR model is designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The Bank uses two VaR methods which are the Monte Carlo Simulation and the Historical Simulation models to assess possible changes in the foreign currency portfolio based on historical data from the past one day. The Bank uses Variance/Covariance model to assess possible changes in foreign currency portfolio based on historical data from the past one day. The VaR methodology employed by the Bank uses a one-day period, using 99% confidence level, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day, and are determined by observing market data movements over a 250-day period. The use of a 99% confidence level means that, within one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

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.

33. RISK MANAGEMENT (CONT'D.)

33.4 Market risk (cont'd.)

Objectives and limitations of the VaR Methodology (cont'd.)

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 MNT'000	Monte Carlo Simulation MNT'000
2023 – 31 December	(352,774)	(358,748)
2023 – Average Daily	(452,864)	(344,544)
2023 – Highest	(978,539)	(840,594)
2023 – Lowest	(70,766)	(69,953)
2022 – 31 December	(554,115)	(560,089)
2022 – Average Daily	(287,755)	(283,867)
2022 – Highest	(912,898)	(904,962)
2022 – Lowest	(97,913)	(106,490)

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

Financial assets and financial liabilities by currency as at 31 December 2023	**MNT MNT'000**	**USD MNT'000**	**EUR MNT'000**	**Others MNT'000**	**Total MNT'000**
Assets					
Cash and balances with BoM	850,199,872	371,998,386	7,419,546	10,099,355	1,239,717,159
Due from banks	201,857,065	59,896,748	2,781,767	8,442,563	272,978,143
Loans and advances to customers	2,246,962,764	342,685	–	–	2,247,305,449
Financial assets held for trading	11,741,770	–	–	–	11,741,770
Financial assets at fair value through profit or loss	152,750,837	–	–	–	152,750,837
Debt instruments at fair value through other comprehensive income	1,028,154,645	183,083,187	–	–	1,211,237,832
Equity instruments at fair value through other comprehensive income	103,350	–	17,688	–	121,038
Debt instruments at amortised cost	10,237,465	–	–	–	10,237,465
Derivative financial instruments	44,914	2,342,643	–	–	2,387,557
Other financial assets	411,774	134,977	–	–	546,751
Total	**4,502,464,456**	**617,798,626**	**10,219,001**	**18,541,918**	**5,149,024,001**
Liabilities					
Due to other banks	107,466,752	236,528,511	168,309	508,802	344,672,374
Customer accounts	3,092,302,009	309,146,936	7,529,597	17,846,725	3,426,825,267
Other borrowed funds	161,270,662	192,129,566	–	–	353,400,228
Repo agreement	497,231,962	103,278,215	–	–	600,510,177
Derivative financial instruments	6,356,764	–	–	–	6,356,764
Lease liabilities	8,856,935	–	–	–	8,856,935
Other financial liabilities	36,047,287	466,817	108,415	140,362	36,762,881
Total	**3,909,532,371**	**841,550,045**	**7,806,321**	**18,495,889**	**4,777,384,626**
Net position	**592,932,085**	**(223,751,419)**	**2,412,680**	**46,029**	**371,639,375**

33. RISK MANAGEMENT (CONT'D.)

33.4 Market risk (cont'd.)

Financial assets and financial liabilities by currency	MNT MNT'000	USD MNT'000	EUR MNT'000	Others MNT'000	Total MNT'000
as at 31 December 2022					
Assets					
Cash and balances with BoM	513,001,397	186,240,178	5,476,270	21,678,432	726,396,277
Due from banks	196,388,296	29,209,892	991,218	4,949,446	231,538,852
Loans and advances to customers	1,868,283,818	342,684	–	-	1,868,626,502
Financial assets held for trading	10,896,733	–	–	-	10,896,733
Financial assets at fair value through profit or loss	128,002,947	–	–	-	128,002,947
Debt instruments at fair value through other comprehensive income	768,287,505	189,484,224	–	-	957,771,729
Equity instruments at fair value through other comprehensive income	103,350	–	17,116	-	120,466
Debt instruments at amortised cost	68,223,496	–	–	-	68,223,496
Derivative financial instruments	12,785,546	2,248,887	–	-	15,034,433
Other financial assets	7,888,804	127,194	–	288	8,016,286
Total	**3,573,861,892**	**407,653,059**	**6,484,604**	**26,628,166**	**4,014,627,721**
Liabilities					
Due to other banks	114,266,585	200,849,324	320,754	96,428	315,533,091
Customer accounts	2,550,280,155	170,860,522	5,832,987	22,386,849	2,749,360,513
Other borrowed funds	196,388,492	38,545,645	–	–	234,934,137
Repo agreement	253,049,417	80,180,796	–	–	333,230,213
Derivative financial instruments	2,286,265	–	–	–	2,286,265
Lease liabilities	197,130	–	–	–	197,130
Other financial liabilities	25,499,211	208,416	610	198,793	25,907,030
Total	**3,141,967,255**	**490,644,703**	**6,154,351**	**22,682,070**	**3,661,448,379**
Net position	**431,894,637**	**(82,991,644)**	**330,253**	**3,946,096**	**353,179,342**

Operational risk

Operational risk is the probability of loss arising from system failure, human errors, fraud or external events. When controls fail to perform, operational disabilities can cause damage to reputation, have legal or regulatory implications, and lead to financial loss. The Bank cannot eliminate all operational risk, but through a dual control framework, segregation of duties between front-office and back-office functions, controlled access to systems, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit, the Bank seeks to manage operational risk and reduce it.

34. FAIR VALUE DISCLOSURES

Determination of fair value and fair value hierarchy

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

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:				
Unquoted BoM treasury bills	–	1,028,154,645	–	1,028,154,645
Quoted government bonds at fair value	183,083,187	–	–	183,083,187
Equity instruments measured at FVOCI:				–
Unquoted equities at cost	–	–	121,038	121,038
Financial assets held for trading:				–
Quoted equities at fair value (MIK)	10,721,359	–	–	10,721,359
Unquoted bonds at fair value	–	–	1,020,411	1,020,411
Financial assets at fair value through profit or loss:				–
Junior RMBS	–	–	73,356,041	73,356,041
Senior RMBS	–	–	77,375,115	77,375,115
Junior ABS	–	–	925,034	925,034
Senior ABS	–	–	1,094,647	1,094,647
Loans and advances to customers at FVTPL	–	112,559,592	–	112,559,592
Derivative financial instruments	–	2,387,557	–	2,387,557
Non financial assets				
Revalued properties	–	–	105,787,892	105,787,892
Investment property	–	–	2,232,000	2,232,000
Total	**193,804,546**	**1,143,101,794**	**261,912,178**	**1,598,818,518**
Financial liability				
Derivative financial instruments	–	6,356,764	–	6,356,764
Total	–	**6,356,764**	–	**6,356,764**

34. FAIR VALUE DISCLOSURES (CONT'D.)

Determination of fair value and fair value hierarchy (cont'd.)

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:				
Unquoted BoM treasury bills	–	768,287,506	–	768,287,506
Quoted government bonds at fair value	189,484,223	–	–	189,484,223
Equity instruments measured at FVOCI:				
Unquoted equities at cost	–	–	120,466	120,466
Financial assets held for trading:				
Quoted equities at fair value (MIK)	9,876,322		–	9,876,322
Unquoted bonds at fair value	–	–	1,020,411	1,020,411
Financial assets at fair value through profit or loss:				
Junior RMBS	–	–	62,065,399	62,065,399
Senior RMBS	–	–	61,218,970	61,218,970
Junior ABS	–	–	1,638,404	1,638,404
Senior ABS	–	–	3,080,174	3,080,174
Loans and advances to customers at FVTPL	–	111,739,529	–	111,739,529
Derivative financial instruments	–	15,034,433	–	15,034,433
Non financial assets				
Revalued properties	–	–	78,526,588	78,526,588
Investment property	–	–	2,848,500	2,848,500
Total	**199,360,545**	**895,061,468**	**210,518,912**	**1,304,940,925**
Financial liability				
Derivative financial instruments	–	2,286,265	–	2,286,265
Total	**–**	**2,286,265**	**–**	**2,286,265**

Transfers between level 1, 2 and 3

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

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

34. FAIR VALUE DISCLOSURES (CONT'D.)

Fair value hierarchy (cont'd.)

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

In thousand tugriks	Fair value 2023	2022	Valuation technique	Inputs
Financial assets				
Unquoted BoM treasury bills	1,028,154,645	768,287,506	Market value approach	Market price
Derivative financial instruments	2,387,557	15,034,433	Interest rate parity analysis	Policy rate, SOFR rate, BoM exchange rate
Loans and advances to customers at FVTPL	112,559,592	111,739,529	Market value approach	Market price
Financial liabilities				
Derivative financial instruments	6,356,764	2,286,265	Interest rate parity analysis	Policy rate, SOFR rate, BoM exchange rate

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2023.

The 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						
Unquoted equities at cost	121,038	1%	+/- 1,210.4	Market value approach	Market proxy	MNT 1,000- MNT9,251,650
Unquoted bond at fair value	1,020,411	1%	+/- 10,204.1	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000- MNT 1,000,000
Junior RMBS	73,356,041	1%	+/- 733,560.4	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000
Senior RMBS	77,375,115	1%	+/- 773,751.2	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000
Junior ABS	925,034	1%	+/- 9,250.3	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000
Senior ABS	1,094,647	1%	+/- 10,946.5	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000
Non-financial assets						
Revalued properties	105,787,888	10%	+/- 10,578,789	Market prices and cost approaches	Market prices, depreciated replacement costs	MNT 29,000 – MNT 12.9 million per/sq meter
Investment property	2,232,000	10%	+/-223,200	Market prices and cost approaches	Market prices, depreciated replacement costs	MNT 16.4 million – MNT 27.3 million per sq meter;

34. FAIR VALUE DISCLOSURES (CONT'D.)

Fair value hierarchy (cont'd.)

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						
Unquoted equities at cost	120,466	1%	+/- 1,205	Market value approach	Market proxy	MNT 1,000- MNT8,952,409
Unquoted bond at fair value	1,020,411	1%	+/- 10,204.1	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000- MNT 1,000,000
Junior RMBS	62,065,399	1%	+/- 620,654	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000
Senior RMBS	61,218,970	1%	+/- 612,190	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000
Junior ABS	1,638,404	1%	+/- 16,384	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000
Senior ABS	3,080,174	1%	+/- 30,802	Market value approach	Equivalent bond price/ Market proxy	MNT 100,000
Non-financial assets						
Revalued properties	78,526,588	10%	+/- 7,852,659	Market prices and cost approaches	Market prices, depreciated replacement costs	MNT 29,000 – MNT 12.9 million per/sq meter
Investment property	2,848,500	10%	+/- 284,850	Market prices and cost approaches	Market prices, depreciated replacement costs	MNT 16.4 million – MNT 27.3 million per sq meter;

There were no changes in valuation techniques during the year ended 31 December 2023 and 31 December 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 are as follows:

Junior RMBS	2023 MNT'000	2022 MNT'000
At 1 January	62,065,399	44,059,005
Addition	10,762,300	13,837,100
Accrued interest, net	528,342	4,169,294
At 31 December	**73,356,041**	**62,065,399**

Senior RMBS	2023 MNT'000	2022 MNT'000
At 1 January	61,218,970	36,628,636
Addition	105,114,100	124,532,400
Sold	(88,748,700)	(102,928,900)
Accrued interest, net	(209,255)	2,986,834
At 31 December	**77,375,115**	**61,218,970**

Senior ABS	2023 MNT'000	2022 MNT'000
At 1 January	1,638,404	156,931
Addition	148,700	1,459,500
Sold	(858,000)	-
Accrued interest, net	(4,070)	21,973
At 31 December	**925,034**	**1,638,404**

34. FAIR VALUE DISCLOSURES (CONT'D.)

Junior ABS	2023 MNT'000	2022 MNT'000
At 1 January	3,080,174	-
Addition	594,800	7,262,600
Sold	(2,550,400)	(4,222,500)
Accrued interest, net	(29,928)	40,074
At 31 December	**1,094,647**	**3,080,174**

Unquoted equities at cost	2023 MNT'000	2022 MNT'000
At 1 January	120,466	118,385
Sold	-	-
Forex difference	572	2,081
At 31 December	**121,038**	**120,466**

Unquoted bond at fair value	2023 MNT'000	2022 MNT'000
At 1 January	1,020,411	-
Addition	-	1,000,000
Accrued interest, net	-	20,411
At 31 December	**1,020,411**	**1,020,411**

Revalued properties	2023 MNT'000	2022 MNT'000
At 1 January	78,526,588	78,611,482
Additions (Note 22)	5,680,918	1,880,078
Transfer from intangible assets (Note 22)	1,000,906	-
Revaluation gain (Note 22)	22,354,538	-
Written off	-	(223,901)
Depreciation charge (Note 11)	(1,775,058)	(1,741,071)
At 31 December	**105,787,892**	**78,526,588**

Investment properties	2023 MNT'000	2022 MNT'000
At 1 January	2,848,500	2,364,878
Revaluation	(616,500)	483,622
At 31 December	**2,232,000**	**2,848,500**

Revaluation of 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, income and cost replacement approaches. 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. Income approach was based on rental income that could be generated, derived from similar buildings in the market or he Bank's own rented branches in nearby locations, with an applied discount rate. Cost approach was applied for properties in remote locations where market and transaction process or rental amounts were not readily available, and represents the estimated reproduction cost of property taking into account building costs, inflation and construction statistics, and the age and condition of the property.

34. FAIR VALUE DISCLOSURES (CONT'D.)

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 difference between the two values.

As at 31 December 2023	Carrying amount MNT'000	Fair value MNT'000
Financial assets at amortised cost		
Loans and advances to customers	2,134,745,857	2,269,236,514
Quoted government bonds	10,237,465	10,237,465
Total	**2,275,382,141**	**2,279,473,979**
Financial liabilities at amortised cost		
Borrowed funds	353,400,228	353,400,228
Total	**353,400,228**	**353,400,228**

As at 31 December 2022	Carrying amount MNT'000	Fair value MNT'000
Financial assets at amortised cost		
Loans and advances to customers	1,756,886,973	1,854,263,116
Quoted government bonds	68,223,496	68,223,496
Total	**1,825,110,469**	**1,922,486,612**
Financial liabilities at amortised cost		
Borrowed funds	234,934,137	234,934,137
Total	**234,934,137**	**234,934,137**

35. RELATED PARTY DISCLOSURES

Transactions with key management personnel of the Bank

The aggregate remuneration of members of the Board of Directors during the year, paid by the Bank, was as follows:

	2023 MNT'000	2022 MNT'000
Short-term benefits:		
Salaries and other allowances	213,909	162,370
Contribution to social and health fund	67,677	38,071
	281,586	**200,441**

35. RELATED PARTY DISCLOSURES

Transactions with key management personnel of the Bank

The aggregate remuneration of directors during the year, paid by the Bank, was as follows:

	2023 MNT'000	2022 MNT'000
Short-term benefits:		
Salaries and other allowances	2,659,312	2,201,376
Contribution to social and health fund	343,921	401,964
Bonus and other benefits	427,913	1,167,883
	3,431,146	3,771,223

Transactions with directors and key management

	2023 MNT'000	2022 MNT'000
Loans and advances to key management	3,684,459	2,161,569
Deposits from key management	229,398	368,934

Key management have banking relationships with the Bank which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

The loans and advances to key management were secured, bore interest rates from 5.0% to 28.8% (2022: 5.0% to 28.8%) per annum and are repayable within 1 to 29 years. The interest income received from such loans during the financial year amounted to MNT 291.0 million (2022: MNT 58.9 million).

The deposits from the key management bore interest rates from 0.0% to 12.9% (2022: 0.0% to 12.3%) per annum. The interest expenses paid to the deposits from key management during the financial year amounted to MNT 20.7 million (2022: MNT 13.7 million).

Transactions and balances with shareholders

The Bank enters into transactions with shareholders on an arm's length basis. The balance as at 31 December were as follows:

	2023 MNT'000	2022 MNT'000
Deposits and current accounts	(15,917,911)	(26,526,745)
Borrowed funds	(48,017,680)	(53,910,044)
Quoted government treasury bills	183,083,188	189,484,223

The deposits and current accounts bore interest rates are 0.0% to 1.2% (2022: nil) per annum. The interest expense paid on these accounts during the financial year was MNT 62.5 million (2022: nil).

The borrowed funds bore interest rates from 3.0% to 7.3% (2022: 3.0% to 7.3%) per annum. The interest expenses recognised on such funds during the financial year amounted to MNT 2,493 million (2022: MNT 4,343 million).

Interest income from Government treasury bills during the financial year amounted to MNT 13,638,346 thousand (2022: MNT 11,169,148 thousand).

35. RELATED PARTY DISCLOSURES (CONT'D.)

Transaction and balances with the Bank of Mongolia

The balance as at 31 December were as follows:

	2023 MNT'000	2022 MNT'000
Current accounts with BoM (Note 13)	1,179,640,103	676,357,622
BoM treasury bills (Note 18)	1,028,154,645	768,287,505
Borrowed funds (Note 28)	(60,792,022)	(81,207,286)

Interest income and expenses recognized during the year with Bank of Mongolia were as follows:

	2023 MNT'000	2022 MNT'000
Interest income:		
Current accounts with BoM	18,620,095	10,358,273
BoM treasury bills	67,889,634	54,884,418
	86,509,729	65,242,691
Interest expense:		
Borrowed funds	2,010,097	626,770

Transaction and balances with other government entities

The balance as at 31 December were as follows:

	2023 MNT'000	2022 MNT'000
Due to customers	(811,712,020)	(459,387,069)
Borrowed funds	(36,219,355)	-
Due to banks and other financial institutions	(19,545,971)	(31,993,104)
Quoted government bonds	10,237,465	68,223,496
Senior ABS	1,094,647	-
Junior ABS	925,034	-

Interest income and expenses recognized during the year with other government entities were as follows:

	2023 MNT'000	2022 MNT'000
Interest income:		
Quoted government bonds	16,163,594	6,684,430
Senior and Junior "ABS"	307,276	-

Interest expense recognized in the transactions with other government entities during the financial year amounted to MNT 13,872 million (2022: MNT 3,224 million).

Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. Outstanding balances except for loans and advances to related parties at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2023 and 2022, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties.

The Bank utilised the amendment in IAS 24 on "partial exemption from the disclosure requirement for government-related entities". Thus, individually immaterial transactions with government-related entities are not disclosed in these financial statements.

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 34 "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	1,239,717,159	–	1,239,717,159
Due from banks and financial institutions	272,978,143	–	272,978,143
Derivative financial instruments	–	2,387,557	2,387,557
Loans and advances to customers	73,358,454	2,173,946,995	2,247,305,449
Financial assets held for trading	11,741,770	–	11,741,770
Financial assets at fair value through profit or loss	–	152,750,837	152,750,837
Debt instruments at fair value through other comprehensive income	1,028,154,645	183,083,187	1,211,237,832
Equity instruments at fair value through other comprehensive income	–	121,038	121,038
Debt instruments at amortised cost	10,237,465	–	10,237,465
Other assets	45,714,781	–	45,714,781
Assets held for sale	668,453	–	668,453
Investment property	–	2,232,000	2,232,000
Property and equipment	–	156,126,616	156,126,616
Intangible assets	–	6,788,664	6,788,664
Right-of-use assets	–	8,263,133	8,263,133
Total assets	**2,682,570,870**	**2,685,700,027**	**5,368,270,897**
Financial liabilities			
Due to banks and financial institutions	326,562,335	18,110,039	344,672,374
Due to customers	2,989,972,461	436,852,806	3,426,825,267
Repo agreement	497,224,863	103,285,314	600,510,177
Derivative financial instruments	6,356,764	–	6,356,764
Borrowed funds	2,640,062	350,760,166	353,400,228
Other liabilities	33,766,096	4,807,174	38,573,270
Lease liabilities	–	8,856,935	8,856,935
Income tax liabilities	10,496,995	–	10,496,995
Deferred tax liabilities	–	3,228,975	3,228,975
Total	**3,867,019,576**	**925,901,409**	**4,792,920,985**
Net*	**(1,184,448,706)**	**1,759,798,618**	**575,349,912**

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONT'D.)

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	726,396,277	–	726,396,277
Due from banks and financial institutions	231,538,852	–	231,538,852
Derivative financial instruments	15,034,433	–	15,034,433
Loans and advances to customers	220,324,444	1,648,302,058	1,868,626,502
Financial assets held for trading	10,896,733	–	10,896,733
Financial assets at fair value through profit or loss	–	128,002,947	128,002,947
Debt instruments at fair value through other comprehensive income	802,911,961	154,859,768	957,771,729
Equity instruments at fair value through other comprehensive income	–	120,466	120,466
Debt instruments at amortised cost		68,223,496	68,223,496
Other assets	18,279,807	–	18,279,807
Assets held for sale	12,894,113	–	12,894,113
Investment property	–	118,046,524	118,046,524
Property and equipment	–	2,848,500	2,848,500
Intangible assets	–	5,940,582	5,940,582
Right-of-use assets	–	20,573	20,573
Total assets	**2,038,276,620**	**2,126,364,914**	**4,164,641,534**
Financial liabilities			
Due to banks and financial institutions	275,314,281	40,218,810	315,533,091
Due to customers	1,849,227,620	900,132,893	2,749,360,513
Repo agreement	244,486,683	88,743,530	333,230,213
Derivative financial instruments	2,286,265	–	2,286,265
Borrowed funds	104,437,896	130,496,241	234,934,137
Other liabilities	19,330,649	7,029,831	26,360,480
Lease liabilities	197,130	–	197,130
Income tax liabilities	1,196,135	–	1,196,135
Deferred tax liabilities	–	5,334,391	5,334,391
Total	**2,496,476,659**	**1,171,955,696**	**3,668,432,355**
Net*	**(458,200,039)**	**954,409,218**	**496,209,179**

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

37. CAPITAL ADEQUACY

The adequacy of the Bank's capital is monitored using the rules and ratios established by BoM. During 2023 and 2022, the Bank complied in full with the capital requirements set by the regulatory body.

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.

37. CAPITAL ADEQUACY (CONT'D.)

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 below capital adequacy ratios are prepared according to BoM regulations which are non-IFRS and the ratios are based on the Bank's report submitted to BoM on 05 Jan 2024.The capital adequacy ratios of the Bank as at 31 December were as follows:

	2023	2022
Core capital adequacy ratio	21.5%	24.4%
Risk-weighted capital ratio	21.5%	24.4%

	2023 MNT'000	2022 MNT'000
Tier I Capital		
Ordinary shares	188,774,063	188,774,063
Additional paid-in capital	14,652,725	14,652,725
Other reserves	693,669	693,669
Retained earnings	304,292,186	262,988,358
Total Tier I Capital	508,412,643	467,108,815
Tier II capital		
Revaluation surplus	-	-
Total Tier II Capital	-	-
Total capital/capital base	**508,412,643**	**467,108,815**

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	2023 Weighted MNT'000	2022 Risk Assets MNT'000	2022 Weighted MNT'000
0	2,448,050,247	–	1,715,362,065	-
20	229,619,146	45,923,829	225,114,450	45,022,890
50	571,782,736	285,891,368	482,167,902	241,083,951
70	–	–	-	-
80	–	–	-	-
90	–	–	-	-
100	1,778,525,865	1,778,525,865	1,515,390,665	1,515,390,665
120	–	–	-	-
150	119,996,695	179,995,042	26,380,936	39,571,404
200	904,600	1,809,200	1,613,900	3,227,800
Adjustments:	–	–	–	–
Allowance for spread of portfolio	–	–	–	–
Operational risk ratio	–	36,493,216	–	35,198,680
Foreign exchange risk ratio	–	36,747,254	–	38,179,132
Total	**5,148,879,289**	**2,365,385,775**	**3,966,029,918**	**1,917,674,522**

38. EVENTS AFTER THE REPORTING DATE

The Bank has declared a dividend of MNT 49.9 billion from its year end earnings on 19 February 2024. The dividend declaration is subject to the approval of BoM, which was granted by the BoM on 7 March 2024.

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

39. MONGOLIAN TRANSLATION

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